

**HORIZONTAL EQUITY IN THE TAXATION OF THE
INCOME OF INDIVIDUALS IN THE REPUBLIC OF
SOUTH AFRICA SUBSEQUENT TO THE SUBMISSION
OF THE MARGO REPORT**

by

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SUMMARY

The purpose of this research was to determine whether horizontal equity in the taxation of individuals in South Africa improved after the legislative changes from 1984 to 1995 and the Katz Commission recommendations.

After an extensive literature study, horizontal equity in the taxation of individuals in South Africa was defined as the equivalent tax treatment in equivalent economic circumstances for the same economic units. The household as the economic unit, is the unit to be considered when evaluating horizontal equity.

The study also reviewed the solutions found in other countries for the dilemma of the one-breadwinner versus the two-breadwinner married couple. It was found that the tax systems of most countries provide relief to the one-breadwinner couple while the working wife was taxed separately from her husband or had the option to be taxed separately.

An important part of this study compared the tax of the unmarried taxpayer and the married couple as the units for horizontal equity. It was found that, although two-breadwinner married couples were discriminated against until the separate taxation of married couples was introduced, the one-breadwinner couple and single taxpayers with dependants now suffer more horizontal inequity than was previously the case.

The research indicated that to attain greater horizontal equity provision should also be made for families and households with only one breadwinner (breadwinner being defined as the provider in a one-breadwinner couple or a taxpayer with dependents).

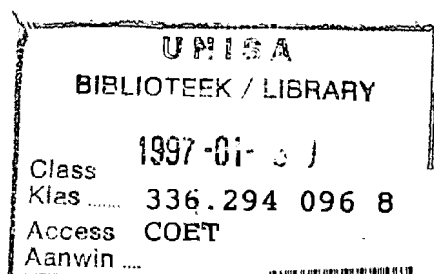
Recommendations made to alleviate this inequity are transferable allowances for spouses, or, without contravening the Constitution's demands for equality, a separate rate schedule for breadwinners, a fixed allowance or rebate for breadwinners, or a proportional allowance depending on the breadwinner's income.

The study also addressed the financial and administrative implications and political acceptability of these recommendations and concluded that the proportional allowance, although expensive, would come the closest to providing the greatest horizontal equity.

The research into the international tax measures to promote equity revealed that horizontal equity could be further promoted by providing tax relief for child-care and day-care facilities. This would benefit both the two-breadwinner married couple and the single parent with dependent children.

Key terms:

Horizontal equity; Taxation of individuals; Two-breadwinner married couples; Working married women; Single parents; Dependents; Margo Commission; Economic units; Household; Equality.



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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND PERSPECTIVE AND PROBLEM DEFINITION

1.1.1 BACKGROUND PERSPECTIVE

1.1.1.1 Change in the work patterns of married couples from traditional husband-as-only-breadwinner to double-earner couples

1.1.1.2 Change in taxation of married couples in other countries

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1.1.1.4 Emotional issue

1.1.2 DEFINITION OF THE PROBLEM

1.2 REASONS FOR AND IMPORTANCE OF THE RESEARCH

1.3 EXPLANATION OF TERMINOLOGY AND CONCEPTS

1.4 LIMITATIONS OF THE STUDY

1.5 OVERVIEW OF THE STUDY

1.1 BACKGROUND PERSPECTIVE AND PROBLEM DEFINITION

In the 1980s marriage is seen as a partnership with the spouses sharing the duties and responsibilities, both legal and otherwise. Sir George Baker was surely correct in Midland Bank Trust Co v Green (No3) when he spoke of the law's need to 'adapt and develop to the needs of living people whom it both governs and serves'.

(Harper 1981:838)

1.1.1 BACKGROUND PERSPECTIVE

The background to this study mainly concerns the sociological changes in the work patterns of the family over the last century and the consequent pressure on tax systems and changes thereto worldwide. Also, several tax commissions and committees reviewed these aspects locally. Finally, there was the matter of the separation of the taxation of husband and wife recommended by the Commission of Inquiry into the Tax System of South Africa (Margo Commission (South Africa 1987)) and the eventual actual separation of taxes payable by the married couple.

The Margo Commission said that "[t]ax reform in South Africa demands the restoration of the tax bases, the elimination of erosion and leakages of revenue, the simplification of the structure, the redistribution of the overall tax burden to make it fairer, easier and more acceptable," The basic aspects sought by the Commission were "equity, neutrality, simplicity, certainty, administrative efficiency, cost effectiveness, flexibility, stability, distributional effectiveness and a fair balance between direct and indirect tax" (Welcome to Margo 1987:405).

This study will focus on the aspect of 'equity' and the 'fairer distribution of the tax burden' mentioned by the Commission and will

attempt to ascertain whether changes in the legislation affecting the taxation of individuals provided more horizontal equity than the legislation reviewed by the Commission.

1.1.1.1 Change in the work patterns of married couples from traditional husband-as-only-breadwinner to double-earner couples.

Previously, men were the hunters and fighters who provided food and security for their families while women were responsible for bearing and raising children. In Work, Wealth and Happiness of Mankind, Wells (1932:523), in discussing "the role of women in the world's work" said that "motherhood has been so great a disadvantage to women as to impose upon them a dependence and defencelessness that are almost inextricably woven into our social tradition" (Wells 1932:539).

Circumstances wrought changes "destroying all the foundation facts upon which that tradition was based". These circumstances were firstly, "the restriction of births ("... birth control minimizes her ancient specialization as the reproductive sex ..." (Wells 1932:525)) and such a hygienic prevention of infant mortality that physical motherhood becomes a mere phase of a few years in a woman's life"; secondly, the "socialization of education and of most domestic services", and thirdly, the "supersession of any protective function on the part of the male by the law and the police. ... Woman is left almost abruptly released and exposed" (Wells 1932:539).

The above trend, already apparent in the United Kingdom in 1932, continued both overseas and in South Africa. This was made clear in the following extract:

Since the introduction in 1914 of a tax on income, the tax unit in South Africa has been the married couple. The decision to aggregate the incomes of husband and wife in order to compute

the normal tax payable by them rested on an assumption undeniably valid for the early part of this century.

The evidence suggests that the assumption of pooling has become increasingly suspect as the family has changed socially and as the rising incidence of divorce has revealed the declining stability of marriage. Women no longer play the stereotyped roles etched out for them when our tax laws were formulated; their increased participation in the workforce and the expectation of the legal system that they be financially independent suggest that to regard marriage as a support institution for the purpose of formulating fiscal policy is no longer justified.

But the single most outstanding phenomenon of the [twentieth] century is the trend from the single-breadwinner family to the double-earner marriage. And while the marriage penalty for double-earner marriage only begins to operate when their combined income exceeds R12 000 a year, inflation has ensured that most such families now are penalised. In 1981, 83% of all taxpayers earned less than R12 000 annually; this had fallen to 29% by 1984.

(Margo Commission Report Finance Week 1987:11)

A married woman worked, in the vast majority of cases, not to supplement her pocket money, or because she was bored at home, but because the household and family needed her income for financial survival. It had become an economic necessity. The tax system (and Government) should take note of this and provide relief by way of tax concessions or help with childcare facilities.

The problem was that all the tax systems considered the married couple to be the tax unit and taxed the wife's income in her husband's hands. This provided horizontal equity in the majority of cases where the husband was the only breadwinner.

Danziger (1981:276-282) noted that in 1981, in terms of s 7(2) of the Income Tax Act, no 58 of 1962, the income of a married woman living with her husband was deemed to have accrued to her husband.

The effect of this deemed accrual is that the income of both spouses is aggregated and taxed in the hands of the husband, while the wife is effectively ignored by the income tax system. ...[This was ameliorated] by the calculation of the husband's tax according to married tax scales, the allowance of a deduction from the husband's income of R1 200 in respect of the wife's earnings, as well as the grant to the husband of the married person's primary rebate....

(Danziger 1981:280)

This "amelioration", however, was introduced because it cost more to support a family and a married couple's household would be more expensive to maintain, at least theoretically, than that of an unmarried person.

The first question is what should be the tax unit, the group whose income and deductions are pooled in determining tax liability. Many people believe that the tax system should be "marriage neutral"; that is, a married couple should have the same tax burden as two single persons, each of whom has the same income as one of the spouses. Many people, however, also believe that, because most married couples pool their income and spend as a unit, fairness requires that the tax burden of a married couple not depend on how their combined income is distributed between them.

(U.S. Congress Joint Committee on
Taxation 1980:4)

Research done by the Human Sciences Research Council in 1986 showed that external factors such as taxation prevented married women from working. This was especially so where the salaries and academic qualifications of one or both of the spouses increased, as they considered taxation to be a burden (Hirschowitz 1986:2).

The adoption of the married couple as a tax unit for purposes of income tax must be viewed against the background of social history. The prevailing system of assessing the married couple as a tax unit was introduced in 1914, many years before married women in South Africa started entering the labour market in increasing numbers. The system is moreover related to the basic law regarding community of property, in terms of which the woman's property ceases to be hers upon marriage, in the sense that she cannot without her husband's consent, alienate property or enter into contracts.

(Wessels 1977:11,12)

According to Danziger (1981:280), the system of joint taxation has been a "bone of contention" to married taxpayers since its inception. Although this was not entirely true, as it was only since the 1950s that committees and commissions began discussing the concept of joint taxation, it was certainly true that problems had been anticipated for a long time. Especially recently "the independent status of the woman has enjoyed increasing recognition, and the battle for women's rights has inevitably spilled over into the income tax arena" (Danziger 1981:280). The changing social circumstances of women and the continuous evolution of the household and the concept of the relevant positions of its members over the last century gave rise to demands for a change in the taxation legislation regarding the joint taxation of husband and wife. Legislation changed gradually and what emerged was separate taxation and a move to a "gender blind" tax statute.

1.1.1.2 Change in taxation of married couples in other countries

For more than the past two decades, the taxation of husband and wife had been an actively discussed topic in many other countries. The following titles of articles on this topic stated the problem descriptively:

"Made in heaven taxed on earth" (Wood & Hallpike 1987);

"Man proposes - God or the taxman disposes" (Homer & Burrows 1984:117);

"Until death or the taxman do us part" (Grant 1989:138);

"Till death or the taxman do us part" (McAuliffe 1989:23);

"The marriage tax isn't dead yet" (CPA Journal 1987:12).

The last example referred to the taxation of married couples in the United States of America and stated that in 1988 forty per cent of married couples would have paid a marriage tax averaging \$1100 and fifty-three per cent would have received a marriage subsidy averaging \$600.

In Canada, research into the legal status of women stated that

[w]hile women and men were deemed equal in the sight of God, on earth women were deemed to be decidedly inferior and the appropriate role for the married woman was generally that of a servant to her husband. It has been observed generally that most patriarchal societies go through an evolutionary process; from an insubordinate status for the married woman to a status of equality.

(McCaughan 1977:v)

In the United Kingdom the economic realities that required the wife to work were stressed as follows:

The annual population monitor conducted by the Office of Population Censuses and Surveys demonstrates that few households can afford economically inactive women: In 1971, 45 per cent of non married women and 44 per cent of married were 'economically active', in 1975 the figures were 42 and 51 per cent respectively and in 1978 40 and 52 per cent ... there has been a steady decrease in non-married working women and an increase in

those married. The figures apply to all women in the 16-54 year age bracket.

(Unfair to women 1980:34)

In the United States of America the increase in the number of women workers continued as well. In the "early 1960s" when the husband's breadwinning role was still strong, women constituted 34 per cent of the workforce while in the mid 1980s this figure had increased to 44 per cent (Michels 1991:8).

Brozovsky and Cataldo (1993:21) defined the penalty for marriage in the United States of America. They described it as being

... the additional federal income tax paid by married couples over what would be paid by two single individuals having the same combined income and deductions. It is the result of (1) different standard deduction amounts and the more significant (2) different bracket/rate schedules. Both of these are dependent entirely upon the marital filing status of the taxpayer.

In the United States of America married taxpayers had a choice between being taxed as a couple (that is jointly) or filing separately. It was, however, considered more advantageous to file jointly because "[m]arried taxpayers who file separately virtually always pay more tax than if they had filed jointly or as unmarried individuals" (Jagolinzer & Strefeler 1986:76).

The efforts to diminish this penalty continued but the penalty itself (or the marriage tax advantage depending on the circumstances) remained a problem.

The efforts to equalize the tax burdens between married couples where both parties earn income, and unmarried persons cohabiting where both parties earn income created a whole new set of inequities. ... [This] is particularly highlighted where the two parties each have relatively equal incomes. ... [A]ll in all it

is a complex calculation that leads to the determination of the allowance that was intended to equalize the difference between married couples and unmarried couples, with a view to eliminating the penalty on marriage, and the inequality still remains through these added distortions and inequities.

(IRS still subsidizes cohabiting ... 1983:319)

The tax system in the United Kingdom, which formed the basis for the South African tax system, also taxed the husband and wife jointly. The marriage tax was not as heavy, however, as in South Africa. In 1990 the system in the United Kingdom was changed to a system of separate taxation. It did, however, provide for the taxation of the couple where there was only one breadwinner or for allowances to be transferable between the spouses where the one spouse could not utilize the full allowance. (For a more detailed study of the tax treatment of married couples in other countries refer to Chapter 3.)

1.1.1.3 Increasing attention to this problem in South Africa

Since 1950, various taxation commissions and committees have discussed the problem of joint taxation. All more or less agreed that joint taxation was the correct system for South Africa even though the wife paid tax at the husband's marginal rates.

The question of the married couple as a tax unit where both spouses are employed has been the subject of scrutiny since 1951, the time when married women started entering the labour market in large numbers.

(Wessels 1977:11,12)

The Steyn Committee (1951) (South Africa 1976:13) refused to concede that the system then in force was unfair. It was not in favour of a change as it considered the family to be the "economic unit". The Diederichs Commission (1953) (South Africa 1976:13) concurred with these findings. The Franzsen Commission (1969) (South Africa 1969),

although recommending the retention of joint taxation, suggested the exemption from tax of a portion of the married woman's earnings.

The Margo Commission was the first to suggest separate taxation, but acknowledged the problem of equity for one-breadwinner families. The taxation of married couples, however, remained particularly heavy for the married woman. The Financial Mail (Joint taxation 1986:29) pointed out that even with the 20 per cent married-women's earnings allowance, the effect of the new tax tables would increase the wife's tax. Even if the wife and her husband earned identical incomes, her tax would be higher than his.

1.1.1.4 Emotional issue

The joint taxation of husband and wife had always been an emotional issue for militant feminists. The eventual outcome of the empirical research of the facts should, however, provide an objective conclusion. Scathing remarks about the joint taxation system and the militant feminist viewpoint will only be mentioned, if appropriate to the study at hand and to show why change possibly came so slowly to South Africa.

Bloch (1982:273) quoted the Minister of Finance with reference to the taxation of married women as saying that "[t]his aspect of tax policy has unfortunately become a somewhat emotional issue." He also referred to the tax system as "... iniquitous to such a degree", conceding, therefore, that reasonable safeguards were justified, but questioned whether, in the wake of the creation of these safeguards, it was right that the "collective morality, the morality of the State, for the sake of such protection, should sink to the level of the morality of some of its citizens and in the process should do injustice to those who are honest" (Bloch 1982:274).

During 1983, the South African Women's Foundation presented a petition with over a million signatures to the Deputy Minister of Finance calling for the separate taxation of married couples (Joint

taxation 1983:18,19). They referred to the joint taxation system as a tax on virtue. The Financial Mail (Joint taxation 1983:18) expressed the opinion that the standpoint of Inland Revenue stemmed from sociological and political, rather than fiscal, reasons. It also noted that the excuse usually given for not changing the system, namely cost, would have been only one per cent or R200 million out of a total revenue of R19 000 million.

The Financial Mail (Joint taxation 1983:19) stated that the reason for the separate taxation of husband and wife, was the "not very ennobling one of patriarchal tradition and anti-feminist prejudice - male chauvinism in all its glory".

It is to be feared that government is misusing arguments based on revenue take to conceal a mixture of anti-feminist prejudice, confused demographic thinking and even anti-business-class thinking to prevent [South African] women, many of them highly skilled professionally, from taking their rightful position in the workplace.

(Joint taxation 1983:19)

Feelings ran high, not only against joint taxation, but also against the separation of the married couple's tax liability. The pro-separationists were considered to have the "women's liberation view ... held by a vocal minority" (Danziger 1981:280).

In 1976 the Standing Commission of Inquiry in collaboration with the Directorate of Inland Revenue reported on the matter of joint taxation and stated that, owing to the universally unpopular nature of taxation, it would be used as a "scapegoat for anything" (South Africa 1976:para 6(d)).

Gradually, however, what had been perceived as a purely militant feminist issue, became an issue affecting the husband and the wife.

Discontent with the present dispensation is now strongly felt by many men who are legally responsible for the payment of tax

levied upon the earnings of their wives. These men resent the fact that a divorce induced solely by fiscal considerations seems to be the only way to reduce their tax burden, and are acutely aware of the disadvantages to our economy of any disincentive that may discourage skilled married women from taking up paid employment.

(South Africa 1987:par 7.8)

The Report of the Margo Commission clearly showed that submissions advocating separate taxation were not only received from the feminist cadre but also from men and male-controlled organizations (South Africa 1987:108).

1.1.2 DEFINITION OF THE PROBLEM

The Commission believes that the need for marriage neutrality and the equal treatment of men and women justifies a change in the tax unit. It is no longer true that women necessarily depend upon their husbands. Fiscal policy should be seen to discourage neither marriage nor employment.

(South Africa 1987:par.7.159)

The married couple was taxed jointly because of the background social structure that viewed the husband as the breadwinner and the wife as the homemaker. This structure had gradually changed. Wives also entered the labour market and earned a taxable income. Changes were made to the taxation of the income of individuals worldwide. In most instances there was a move towards separate taxation of husband and wife while retaining some fiscal provision for the single or sole breadwinner. Locally, interest in the topic continued to increase with the Wessels report (1977), the Cronje review (1985) and various other reports referred to in previous paragraphs. The topic received specific attention from the Margo Commission and the number of

representations made to the Commission clearly indicated that the taxation of married couples was a problem.

Continuous speculation in the Press, complaints from working married women and feminists, and personal experience indicated that there was a perception that married couples, where the wife earned an income, were treated unfairly by the tax system. A preliminary study of the petitions received by the Margo Commission indicated that not only married women, but all taxpayer categories had problems with the joint taxation and that the problem would not be a simple one to solve.

Various commissions and other local researchers noted and discussed the problem. In other countries, the different legislative bodies considered the system of taxation with regard to the fair treatment of both married couples and single taxpayers.

The report of the Margo Commission (1987) suggested drastic changes to the system. Since 1987 changes have been made to the tax system, especially with regard to the taxation of married couples and the definition of the tax unit.

The post-apartheid South Africa, in its drive towards the elimination of discrimination, including gender discrimination, would surely require the tax system also to be non-discriminatory. Changes in income tax legislation from 1987 to 1994/5 raised questions such as: Was the double-income couple (jointly taxed previously) still the worst off? Were all couples affected in the same way? The married couple should, however, not be the only tax-paying unit to be treated fairly. All taxpayers must receive fair tax treatment.

Smith (1776) (Stack & Cronje 1995:2), and many since him, regarded fairness as one of the founding principles of taxation (other principles are certainty, convenience and economy). Fairness is also known as equity. This equity consists of horizontal and vertical equity. The Margo Commission reiterated this view of the importance of fairness or equity with the equity which it envisaged for the

South African tax system. (Equity is discussed in detail in Chapter 2.)

The following questions need to be answered: Does the new tax system provide more horizontal equity among taxpayers in similar circumstances? Is this the case not only for the married couple but also where there is one breadwinner or two breadwinners? Would it be right or fair, or even acceptable, if everything is made equal? Alternatively, would it be fair to taxpayers in general to retain the system as it has evolved over the past ten years? This study attempts to find answers to the above questions.

The problem therefore is: Has horizontal equity in the taxation of individuals in South Africa been achieved with the changes brought about since the recommendations of the Margo Commission? Is there more horizontal equity than there was previously? If not, how can horizontal equity be achieved or at least be improved?

1.2 REASONS FOR AND IMPORTANCE OF THE RESEARCH

The principle of horizontal equity or 'equal treatment of equals' has long been viewed as a fundamental issue in any fiscal policy debate.

(Balcer & Sadka 1982:291)

Horizontal equity has assumed a basic and prominent role in the evaluation of tax systems and has received much attention in recent years.

(Anderson 1985:358)

In the wider context of horizontal and vertical equity, the separate taxation of married women was not completely achieved with the amendments to the income tax legislation in the 1995 year of assessment. This study researches the extent to which equity was not

achieved and makes recommendations which, together with the discussion of problems related to the recommendations, will contribute to the current tax knowledge. If the tax legislation did not achieve equity, this study hopes to make recommendations for achieving or at least improving horizontal equity.

The many representations made to the Margo Commission in this respect indicated the importance of this topic. The study attempts to measure the changes made to the taxation of individuals, since the publication of the report of the Margo Commission, in terms of actual taxes payable by individuals over the period. It will compare the tax payable before these changes with the tax payable after these changes. This will indicate whether equity was achieved, whether the recommendations made by the Margo Commission were implemented and whether the problems with the system brought to the Commission's attention were dealt with. From there certain reforms to improve horizontal equity will be recommended.

The outcome of this study should be important to the following:

- Firstly, the tax authorities, as it will enable them to show that the new system was either horizontally equitable or more equitable than before and that the taxpaying public should, therefore, be more content. If this is not the case, then this study should enable them to identify areas for improvement and, with reference to the proposed recommendations, change the tax system or legislation. If the new system was equitable only to certain groups, an attempt could be made to provide tax relief in other ways for the other groups.
- Secondly, the married woman and feminist counterparts, as it will enable them to see the effect of the changes and note the progress, to properly plan changes in legal status (marry or divorce or take up employment) and to take cognisance of the financial consequences of the tax effects.
- Thirdly, all taxpayers (horizontal equity affects all taxpayers) as it will enable them to see whether they are taxed fairly and so be

able to plan changes in their tax status accordingly.

- Finally, employers, who must implement the legislation and consider the tax implications when providing a remuneration package to their employees.

1.3 EXPLANATION OF TERMINOLOGY AND CONCEPTS

Specialised terminology is defined and explained in the chapters in which it is used. Words, definitions and descriptions used in this study must be viewed in the context in which they are referred to in the Income Tax Act, no 58 of 1962 and be given their "tax" meaning.

Horizontal equity is discussed in detail in Chapter 2 but brief reference thereto is required here. "Equity" means fair or just as opposed to "equality" which means the exact same (mathematical correctness) treatment of everyone despite different circumstances. These words "equity" and "equality" are used in the economic sense. Feldman (1987:183) preferred to use "equity" which takes into account individuality as compared with "equality" which, in its extreme form, destroys incentives and productivity.

Vertical equity attempts, through the mechanism of the progressive tax system, to redistribute income to the less rich and is an indirect way of providing, or attempting to provide equality.

The concept "horizontal equity" has been widely discussed in the literature. This research is referred to in Chapter 2 but definitions thereof range from "... the command that equals be treated equally ..." (Kaplow 1989:140) to "... taxpayers in essentially equivalent circumstances should bear essentially equal tax burdens ..." (Blum & Pedrick 1986:100). An even more comprehensive definition by Habib (1979:283) considered the family as the tax unit and he defined horizontal equity as "... families with the same initial living

standard experience an equal change as the result of redistribution ...". It is furthermore accepted that horizontal equity implies that certain of the personal circumstances of a taxpayer have to be taken into account in taxation legislation.

The tax unit refers to the entity being taxed whether it is a company, close corporation, trust or individual. In the case of married individuals, and until the 1995 amendments to the Income Tax Act, no 58 of 1962, the unit could either be the married couple (normally taxed in the hands of the husband), or the husband (referred to as a "married person" in the Act) or the wife (known as a "married woman" in the Act). The classification of the tax unit depended on the country and the legislation in force at the time. In the United States of America the married couple themselves could choose whether to be taxed together or separately and the tax unit changed accordingly.

Unless stated otherwise, the legislation referred to here is South African tax law and refers to the Income Tax Act, no 58 of 1962.

1.4 LIMITATIONS OF THE STUDY

Overviews of the tax statutes of South Africa and other countries were limited to the last and current centuries.

The calculations in Chapter 6 of the effect of tax changes on individual taxpayers were limited to salaried incomes of up to R200 000 and to changes in legislation from 1985 to 1995. The effect of children on tax payable, that is rebates for children and the fact that entitlement to a child rebate could mean a change in tax status, medical expenses and other deductions which did not directly impact on the perception of the tax unit, were ignored. The tax payable by the married couple as a unit was compared to the tax payable by an unmarried person earning the same taxable income as the joint income

of the married couple. As the unmarried person was considered per se to be an economic unit compared with the economic unit of the married couple, only one unmarried person's tax was calculated and not two as for the married couple.

The impossibility of achieving perfect equity (horizontal and vertical) has been noted over time and should be mentioned here. This study does not hope to find or recommend a tax system that provides absolute equity, but merely to suggest improvements to horizontal equity where gross deviations occur. Vertical equity is not considered, although it is referred to briefly in Chapter 2.

It must also be stressed that horizontal equity does not only impact on the tax unit but also on various other legislative and fiscal aspects. The horizontal inequity inherent in the Standard Income Tax on Employees system (SITE system), for example, where a person could earn R50 000 per annum from each of two different jobs, paid only SITE as the final tax, did not submit a return and therefore paid tax at lower marginal rates, was also not considered to be part of this study. This study concentrates on the influence of the description of the tax unit on horizontal equity.

The effects of recommendations made that will be taken into account are the tax base, fiscal tax collections and fiscal policies, problems of additional burdens on the administrative system of tax collection and the possible effect on the other canons of taxation. The costs of any recommendations could, however, only be estimated as no definite costs and details were obtainable from the Commissioner of Inland Revenue. The figures of married and divorced taxpayers used were estimates as widows, widowers, divorced persons entitled to a child rebate and married men are all included under "married persons" in the statistics received from the Commissioner of Inland Revenue.

Taxation legislation was considered from the previous century and detailed evaluations were made from 1984 to the 1994 Amending Act. The Recommendations made by the Commission of Inquiry into certain

aspects of the Tax Structure of South Africa (Katz Commission (South Africa 1994)) (which preceded and pre-empted the drastic changes of the 1995 Amending Act) were also taken into account. The effect thereof on the horizontal equity of the taxation of individuals is calculated and criticised in detail in Chapter 6. As the 1995 amendments closely followed the spirit of the Katz Commission's recommendations (if not always the letter), and Chapter 7 recommended solutions to the specific horizontal equity problems inherent in the Katz recommendations, no further detail calculations were done on the 1995 amended legislation.

As tax is viewed as a disincentive it was deemed necessary to ascertain whether the new system is now more fair and acceptable. The consideration of whether everyone regards the tax system as being more acceptable (fair) than previously would be grounds for further study and does not form part of this study.

1.5 OVERVIEW OF THE STUDY

This study is divided into seven chapters. Chapter 2 gives a review of the literature relating to equity and horizontal equity in particular. The descriptions, definitions and measurement of horizontal equity, and problems with horizontal equity are reviewed in Chapter 2. From this a description or definition of horizontal equity for South African circumstances is sought.

Chapter 3 gives a broad overview of the taxation of individuals in other countries, noting in particular the treatment of married couples and the changes to this legislation during the past decade. The overseas legislation that could be applied in South Africa to improve local horizontal equity is researched in Chapter 3.

Chapter 4 reviews the developments in taxation legislation in South Africa up to the 1994 amending legislation. This chapter notes the

continuous disenchantment of taxpayers with the system of joint taxation since the 1950s and the various recommendations by the different committees and commissions appointed to review tax legislation.

Chapter 5 evaluates the Margo Commission's work in respect of joint and separate taxation. The study critically reviews the submissions received on this subject and their relation to the final recommendations made. Although the proceedings of this chapter would appear to fall chronologically within Chapter 4, it was discussed in a separate chapter in order to give more prominence to the proceedings, petitions, actions and recommendations of the Margo Commission. This Commission was the first to positively recommend separate taxation of husband and wife and to set the ball rolling for the subsequent taxation changes in this respect. The petitions received by the Commission against the previous regime often highlighted the complexity of the problems with separate taxation and the influence of the tax unit on horizontal equity.

Chapter 6 evaluates the tax system relating to individuals and the changes thereto since 1985 by way of empirical calculations based on the annual taxation legislation as it pertains to individuals. Comparisons are made of taxes payable by the married couple and the unmarried individual and the differences in these taxes payable are considered. The conclusions in this chapter refer to the state of horizontal equity in South Africa in 1994/95, the progress made towards horizontal equity since 1985 (when the Margo Commission started their work) and critically evaluate the recommendations of the Interim Report of the Commission of Inquiry into certain aspects of the Tax Structure of South Africa (Katz Commission (South Africa 1994)).

Chapter 7 contains the final conclusions and recommendations for improving horizontal equity and takes into account certain proposals by the Katz Commission. The recommendations for horizontal equity are based on either changes in the tax unit or the application of certain tax deductions to married couples, certain spouses or breadwinners.

CHAPTER 2

HORIZONTAL EQUITY

2.1 INTRODUCTION

2.2 DEFINITIONS OF EQUALITY AND EQUITY

2.2.1 GENERAL DEFINITIONS

2.2.1.1 Equality

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2.2.2 ECONOMIC INTERPRETATION

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- 2.5.3.1 Tax preferences, transfers and income tax credits
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- 2.5.3.3 Tax avoidance with capitalisation of tax preferences
- 2.5.4 GOVERNMENT ACTIONS AND TAX REFORM
- 2.5.5 HORIZONTAL EQUITY AND INDIVIDUALS
- 2.6 CONCLUSION

2.1 INTRODUCTION

"The principle of horizontal equity or 'equal treatment of equals' has long been viewed as a fundamental issue in any fiscal policy debate."

(Balcer & Sadka 1982:291)

"Horizontal equity has assumed a basic and prominent role in the evaluation of tax systems and has received much attention in recent years ..."

(Anderson 1985:358)

Horizontal equity, being the evenhanded treatment of "equal" individuals, has been described in many ways and has many complex concepts. This chapter will attempt to clarify these concepts. In order to ascertain whether the tax system taxing the married couple separately is fairer than the system of joint taxation of spouses, fairness needs to be defined. In this chapter an attempt will be made to do so by means of a review of the literature on equity and, specifically, horizontal equity.

Firstly, in paragraph 2.2, the concepts "equity" and "equality" are discussed both from a general and from an economic point of view and a choice of the most appropriate word and concept is made.

Secondly, "the other half" of taxation equity, namely vertical equity and its correlation with progressive tax rates and poverty is considered in paragraph 2.3.

Thirdly, the definition of horizontal equity and the concepts of measurement of equity, efficiency and cost are considered.

Finally, problems with horizontal equity are discussed, not the least of these being the tendency to capitalize on tax preferences, leading to evasion and avoidance of taxes. Tax reform is considered briefly, as this is the instrument used to alleviate inequities (or to cause them).

A broad review of the nature and concepts of horizontal equity will be used to ascertain the actual horizontal inequities in force in the taxation of individuals in South Africa.

2.2 DEFINITIONS OF EQUALITY AND EQUITY

2.2.1 GENERAL DEFINITIONS

Before discussing the specialized tax meanings of "equality" and "equity", the general definitions given by the dictionary will be considered.

2.2.1.1 Equality

According to the Oxford English Dictionary (1961:347), "equality" has the following three different meanings:

1. The condition of being equal in quantity, amount, value, intensity, etcetera. b) especially in Mathematics - the exact correspondence between magnitudes and numbers in respect of quantity, the existence of which is sometimes expressed by the sign =.
2. The condition of having equal dignity, rank or privileges with others; the fact of being on an equal footing; b) the condition of being equal in power, ability, achievement or excellence. ...
3. In persons: fairness, impartiality, equity. In things: due proportion, proportionateness.

While Webster's New Twentieth Century Dictionary of the English Language (2nd ed. 1975) and other dictionaries consulted concurred with this, Webster's referred to the "state" of being equal as

[L]ikeness in magnitude or dimensions; value qualities, degree and the like; the state of being neither superior nor inferior; as, the equality of men; an equality of rights;

Evenness; uniformity; sameness in state or continued course; as, an equality of temper; in mathematics, a comparison of two quantities which are in effect equal, though differently expressed or represented, usually denoted by two parallel lines = .

(Webster's 1975:616)

Equality therefore, refers more to a precise measure being repeated in the two value items that are compared; a mathematical measure as indicated by the sign "=".

2.2.1.2 Equity

With righteousness shall He judge the world and the people with equity.

(Psalm 96 verse 9)

"Equity" has a close relationship to "equality" but does not denote a mathematically correct relationship; it refers more to "fair", "just", but also means "justice".

It was defined by the Oxford English Dictionary (1961:262) as follows:

1. The quality of being equal or fair; fairness; impartiality, equity.
2. What is fair and right; something that is fair and right.
3. The recourse to general principles of justice (the *naturalis aequitas* of Roman jurists) to correct or supplement the provisions of the Law;

Equity of a statute: the construction of a statute according to its reason and spirit so as to make it apply to cases for which it does not expressly provide;

"Equity" was also used in the United Kingdom to distinguish a system of law used with the common and statute law called "natural justice". Thus it follows that an "equitable right" was one recognisable by a "court of equity"; and equity of redemption

meant to "buy back forfeited property" (Oxford English Dictionary 1961:262).

"Equity" was defined by Webster's New Twentieth Century Dictionary (1975:618) as above, but it added: "the giving or desiring to give each man his due"; and "the value of the property beyond the total amount owed on it. ... In law ... [a] resort to general principles of fairness and justice - whenever existing law is inadequate; ... supplementing common and statute law and superseding such law when it proves inadequate for just settlement".

Roget's Thesaurus (1988:353) defined equity as "the state, action or principle of treating all persons equally in accordance with the law".

Both "equity" and "equality" implied fairness, impartiality, a "condition" or "state" of being equal, whether in quantity, amount, value, dignity or even treatment. Therefore while "equity" and "equality" were close to each other in meaning, "equality" implied a mathematical precision and absolute amounts, whereas "equity" leaned more to the concepts of fairness and justice without having precise units on each side - thus, it encompasses both vertical and horizontal equity.

2.2.2 ECONOMIC INTERPRETATION

2.2.2.1 Equality

"The very use of the term 'equality' is often clouded by imprecise and inconsistent meanings."

(Coleman 1987:169)

Defining equality from an economic viewpoint appeared to be more difficult and more complex. Economists differentiate between "equality before the law" (equality of treatment by authorities), "equality of opportunity" (equality of chances in the economic system), and "equality of result" (equal distribution of goods). (Coleman 1987:169)

Coleman, in The New Palgrave. A Dictionary of Economics, explained the different concepts of equality with the following system - an abstraction from reality:

The system consists of

- (a) a set of positions which have two properties:
 - (i) when occupied by persons, they generate activities which produce valued goods and services;
 - (ii) the persons in them are rewarded for these activities, both materially and symbolically;
- (b) a set of adult persons who are occupants of positions;
- (c) children of these adults;
- (d) a set of normative or legal constraints on certain actions.

(Coleman 1987:169)

According to Coleman what was normally meant by equality under the law had to do with (b), (c), and (d) where the legal constraints on actions depended only on the nature of the action, and not on the identity of the actor. That is, the law treated persons in similar positions similarly, and did not discriminate on the grounds of characteristics which were irrelevant to the action.

He further explained that equality of opportunity had to do with (a), (b), and (c):

[T]hat the processes through which persons come to occupy positions give an equal chance to all. More particularly, this ordinarily means that a child's opportunities to occupy one of the positions (a) do not depend on which particular adults from set (b) are that child's parents (Coleman 1987:169).

Equality of result had to do with (a)(ii) in that the position earned the same reward, independent of the activity.

Coleman (1987:169) discussed the different relations of the State to the inequalities that existed or spontaneously arose in ongoing social activities as connected to the three conceptions discussed above. Equality before the law was what concerned this study as the taxation laws limited or extended the equality among the different taxpayers.

Equality before the law implies that the laws of the State do not recognize distinctions among persons that are irrelevant to the activities of the positions they occupy, but otherwise make no attempt to eliminate inequalities that arise. Equality of opportunity implies that the State intervenes to ensure that inequalities in one generation do not cross generations, that children have opportunities unaffected by inequalities among their parents. Equality of result implies a continuous or periodic intervention and redistribution by the State to ensure that the inequalities which arise through day-to-day activities are not accumulated, but are continuously or periodically eliminated.

(Coleman 1987:169)

As far as taxation was concerned, equality before the law, as defined above, and equality of result, affected the horizontal equity among individuals because the State redistributed money via collection by taxation and attempted to eliminate the inequalities by giving these monies to the underprivileged. They, however, were not the only recipients of taxpayers' money and this may well be where the concern of this study is concentrated. (The "collection" took, for example, more from one taxpayer than from another earning the same income but having a different marital status.)

In the economic system, the government was seen as ensuring equality by way of legislation - taxation and other legislation - thus righting the "wrongs" of the supply and demand action of the economy.

Reference was also made to the "welfare economy" in economic theory (welfare economics acted closely with government to attempt to help people unable or less able to help themselves in an attempt to treat people equally). Welfare economics was considered to be a substitute in general for the absence of "natural equality". Each person contributed to general welfare and

... welfare economics, makes up for the absence of 'equality' from positive economic theory, for the idea of equality of result is a part of the very atmosphere surrounding welfare economics. ... It assumes that each person is an island, and contributes nothing to the welfare of others, nor has his welfare contributed to by others.

(Coleman 1987:170)

Coleman (1987:171) noted, however, that this was not the case. It depended on the actions of the person. For example, one person might spend money on loud radios that caused a disturbance, while another person planted flowers enjoyed by others. Or, one used income for training, which was productive and benefitted general

welfare, while another used income on drink and became an alcoholic, requiring hospitalisation at public expense.

It was, however, impossible to have total equality, as depicted by Coleman when he pointed out that an equal distribution at one point would lead to an unequal distribution at a later point. He cited the example of the brilliant basketball player who had a contract to receive 25 cents for each ticket sold to one of his games. All the spectators contributed equally to see the game (25 cents each), but the player received an enormous amount, more than each had paid.

"Equality" in this instance could be brought about in one of three ways (all of which, carried to their limit, could be shown to reduce welfare):

- One way is to prevent people spending their incomes as they want to, as monies may then be accumulated by the "gifted players" of the world;
- A second way is to attack the activity - "the system which generates that matrix of coefficients that transform equality into inequality" (Coleman 1987:171), in this instance, shutting down professional basketball as it redistributes income from those with low incomes to those with high incomes.
- The third way is to allow the exchange, but then to tax the high incomes back down to equality. This effectively eliminates the activity, because if income is an incentive to carry out the activity that is paid for, the gifted player loses all incentive to carry out the activity: do extra exercise, work harder, and give up leisure time.

It is true that taxation which is not carried to the limit, but is merely 'progressive' does not eliminate the incentive for activities that bring high income, for these activities

continue in societies that have progressive taxation. But this taxation may lead to underprovision of welfare-generating activities. That is, efficiency may be sacrificed to achieve some distributional goals.

(Coleman 1987:171)

Thus, although a tax reasonably applied would not take back all earnings, progressive rates might still act as a disincentive. It would also act as a disincentive for the poor/unemployed because, if they received the handout in any event, why should they work? There were, however, other advantages for the basketball player, even if he paid high taxes. These advantages were in the form of fame, perhaps being able to endorse certain sports equipment and thereby earning income from advertising as well, and doing something that he enjoyed.

Coleman (1987:171) considered that all three approaches to preventing inequalities from arising out of equality gave, at their extreme, the same result: elimination of the very system of activities that generated welfare in the first place; as it was these activities which not only generated welfare, but also later transformed equality into inequality.

He concluded that "it becomes clear that the source of inequalities is embedded in the very matrix of social and economic activities through which individuals increase the welfare of themselves and one another." (Coleman 1987:171). It would thus seem that achieving equality was not a reasonable ambition. To aim for total equality among all people, with their inborn differences, was not a possible or a plausible goal.

This study is therefore not concerned with equality among South Africans or even with equality among taxpayers, because equality, besides being almost impossible to achieve, leads to other problems such as becoming a disincentive for people to work.

2.2.2.2 Equity

According to Feldman (1987:183) in The New Palgrave. A Dictionary of Economics: "[d]epending on the user's inclinations, 'equity' can mean almost anything." He then adopted a meaning close to "equality" or "fairness".

Considering the differences between "equal" and "equitable" the following was noted:

If goods, advantages, etcetera were divided equally, that is, everybody receiving $1/n$ th of the total, they would be treated equally, but they would not necessarily be happy "for no other reason than that no two people would ever want to consume exactly the same bundle of goods" (Feldman 1987:183).

For, if two people had to share one apple and one orange when the one person loved oranges and the other preferred apples: the equal division would be half an orange and half an apple each, but the equitable division would be the apple to the one who liked apples and the orange to the one who preferred oranges.

[G]etting society to that equal allocation would require transferring wealth from the more productive individuals to the less productive, and the transfer mechanism itself would destroy incentives to produce [because if the additional earnings are to be paid over in taxes to less productive individuals, why work the extra hours or put in the extra effort required to earn that income.]

(Feldman 1987:183)

Feldman (1987:183) also pointed out that although economists have quantified equity in a formula it was not necessarily the correct way to do it:

But the notion of equity has an obvious disadvantage, ... For instance, the economist's model, which reduces person (i) to a utility function (u_i) and a bundle of goods (x) ignores the fact that life is full of things not captured in (u_i) or (x), for instance, non-transferable attributes like beauty, health and family.

Therefore, in a world where some people were poor and others rich, some intelligent and others not, some enjoying perfect health and others not, some lazy and others diligent, equal results and "equal lives for all" was clearly not possible or necessarily required. An equitable society could be strived for, however, (where justice and fairness would rule and just and fair treatment would be attempted) and for that reason "equity" and not "equality" was used in these discussions.

From the above it was clear that all people could not have equal bundles to consume, as all people did not have the same abilities, talents, ability to work, tastes and preferences.

But equity does not share equality's obvious disadvantage of forcing all to consume the same no matter what their tastes.
(Feldman 1987:183)

2.3 VERTICAL EQUITY

To ensure the just and equitable society we strive for, income taxes were instituted. Mirrilees (1979:1) noted that taxation served three purposes, namely "... raising money to finance public outlays; redistributing income among households; and guiding the behaviour of private agents".

Although he noted that all types of taxation have those three effects, he argued that any particular type had "only one primary purpose", and proceeded to decide what this purpose was in the case of the income tax.

As neither the first nor third purposes appear to call for a tax of such complexity, the income tax would seem to be necessitated primarily by the requirements of income redistribution.... The ... aspect [of income redistribution] has to do with the lessening of perceived inequalities in personal economic welfare, and must proceed from an ethical preference for egalitarianism. This preference is unnecessary to a ... second aspect of income redistribution - the requirement that where a given level of public expenditure is desired by a country's citizens, its cost should be distributed amongst them in a fair and just manner.... Income redistribution ... is only incidental to the primary requirement of fairness.

(Mirrilees 1979:1)

Berliant and Strauss (1985:182) defined vertical equity as referring to any comparison of the after-tax income distributions generated by tax systems. "Measures of vertical equity (or inequity) are essentially measures of after-tax income inequality".

Wealth redistribution was needed to sustain that portion of society which was less fortunate. Vertical equity was thus "equality" for all by redistribution of earnings by way of (generally) a progressive tax system. This had more to do with equality among people and the welfare economics mentioned earlier. To achieve vertical equity, progressive tax rates were applied and the "rich" were taxed to give to the "poor".

The Meade Commission (1978:12) noted as one of the requirements of a "good tax system" that "... a modern tax system must be so

constructed as to be capable of use for vertical redistribution between rich and poor".

The Commission divides equity (which is closely linked to neutrality) into horizontal equity and vertical equity. The former requires that similar individuals be treated similarly or that persons in the same circumstances bear the same taxes. Vertical equity, on the other hand, requires that those in different circumstances bear appropriately different tax burdens, ie that those with a higher level of "economic well-being" shoulder greater tax burdens than those less fortunately placed. Underlying both these notions of equity is the idea of equal sacrifice.

(Neutrality and Equity in taxation 1990:161)

Mirrilees (1979:25) noted alternative ethical views of vertical equity, namely the principle of equal sacrifice, the principle of proportional sacrifice and the principle of minimum sacrifice. He noted, however, that not one of them appeared to be applicable as progressive rates were used and that was not conducive to one of the three principles.

It could be argued, however, that the principle of proportional sacrifice was the closest to the system of progressive tax rates as a person who earned more could be expected to derive more from material resources than one who earned less. That, however, was not always the case as not everyone used their money in the same way.

A progressive tax system strives for vertical equity. Progressive rates and problems with "welfare" distributions (the main problem being the perception that those who have a lot must give to those who do not, while those who have less then simply do less work) acted as a disincentive for those who do work (and often work very hard to achieve more) as explained by Rothbard (1962:796-797). He criticized all taxes from an economic viewpoint:

Taxation, as we have seen, takes from producers and gives to others. Any increase in taxation swells the resources, the incomes, and usually the numbers of those living off the producers, while diminishing the production base from which these others are drawing their sustenance.

In the market economy, net incomes are derived from wages, interest, ground rents, and profit; and in so far as taxes strike at the earnings from these sources, attempts to earn these incomes will diminish. The laborer, faced with a tax on his wages, has less incentive to work hard; the capitalist, confronting a tax on his interest or profit return, has more incentive to consume rather than to save and invest. The landlord, a tax being imposed on his rents, will have less of a spur to allocate land sites efficiently.

(Rothbard 1962:796-797)

He also mentioned the disincentive effect on savings in that "[t]he income tax, by taxing income from investments, cripples saving and investment, since it lowers the return from investing below what free-market time preferences would dictate" (Rothbard 1962:797).

Rothbard (1962:800-801) went on to discuss the attempts at a neutral taxation: "The imposition of different taxes disrupts these patterns and cripples the market's work of allocating resources and output" and defined a neutral tax as "a tax neutral to the market, leaving the market roughly as it was before the tax was imposed" calling it a "hopeless venture". "For there can be no uniformity in paying taxes when some people in society are necessarily taxpayers, while others are privileged tax-consumers".

He felt, however, that that would be a misconception of what a neutral tax would have to be, that is, not one which left the income patterns the same as before; but

it would be a tax which would affect the income pattern, and all other aspects of the economy in the same way as if the tax were really a free-market price. ... For normally, market prices are not proportional to each man's income or wealth, but are uniform in the sense of equal to everyone, regardless of his income or wealth or even his eagerness for the product. ... Far from being "neutral" to the free market, then, a proportional income tax follows a principle which, if consistently applied, would eradicate the market economy and the entire monetary economy itself.

(Rothbard 1962:801-802)

He further discussed the fact that taxation was a compulsory expense and people were not freely willing to participate. This should be the case in a free-market economy:

Progressive taxation, where each man pays more than proportionately to his income, of course makes no attempt at neutrality.... Proportional income taxation has many of the same consequences, and therefore the level of income taxation is generally more important for the market than the degree of progressivity ... demonstrating that it is not so much the progressivity as the height of his tax that burdens the rich man.

(Rothbard 1962:805)

Thompson (1988:141,142) also criticised a progressive rate structure:

Although it is true that no clause of the Constitution [of the United States of America] expressly requires all taxes to be a flat amount or a flat rate, both a progressive rate structure and a regressive rate structure are unconstitutional because they violate the law of equality as expressed in the Declaration.

Thus, vertical equity ensured or attempted to ensure an equality of means for the people in a country by taxing the rich at a higher/progressive rate to take their money and give to the poor by way of direct subsidies or transfer payments, reductions in their tax burdens, tax credits, etcetera. This was regarded as even-handedness. Rothbard (1962:818) viewed the State's poor relief as a clear subsidization of poverty. Progressive rates thus provided vertical equity but at the cost of income neutrality and work incentive.

Preece (1991:13) discussed the question of chronic economic inequality in South Africa and an "inequality index league" was considered for a worldwide comparison of the income spread of individuals. "What cannot be disputed, however, - and virtually no-one does - is that the current enormity of the income spread in SA is a major threat to any hope of long-term socio-political stability". This "spread" would indicate the distance between the lowest and highest income and would then be an indication of the vertical equity problems which had to be solved by progressive rates.

He went on to discuss ways of measuring or comparing the extent of financial inequality between various countries and concluded that the position appeared appalling for South Africa. He said, however, that there was no doubt that from the early 1970s to the mid-1980s, black labour in the mining and manufacturing sectors at least secured substantial increases generally in real incomes. He showed how black wages almost doubled in real terms while white wages rose by only 9 per cent between 1970 and 1984. The black share of the modern sector wage bill rose from 20 per cent to nearly 30 per cent during the same period (Preece 1991:13).

The Gini ratio developed over the last century "deals with distribution by size of income, or *personal* income distribution, and the quantitative assessment of the relative degree of income inequality among the members of a given set of economic units."

(Dagum 1987:529,530). In a Gini rating (one of several commonly used international methods of comparing the extent of financial inequality between various countries) done for certain countries in the world in 1989, South Africa had a Gini rating of 0,57 where a zero coefficient would reflect absolute equality while the nearer the figure got to 1 the greater the level of inequality. It was, however, generally considered that somewhere around 0,30 was the lowest practical figure obtainable, showing an exceptionally "fair" distribution of income while 0,70/0,75 showed maximum inequality, except for some essentially freak situations. Taiwan had a Gini rating of 0,27 (the lowest) and the Bahamas 0,63 (the highest). It must be noted that the dates when the Gini rating was calculated varied from 1970 to 1989 and resulted in an average Gini rating of 0,49.

TABLE 1

<u>COUNTRY</u>	<u>GINI</u>	<u>DATE</u>
SOUTH AFRICA....	0,57	1980
BAHAMAS.....	0,63	1979
BANGLADESH.....	0,39	1981
BRAZIL.....	0,57	1983
COLUMBIA.....	0,57	1981
COSTA RICA.....	0,42	1982
IVORY COAST.....	0,55	1985
HONDURAS.....	0,62	1968
HONG KONG.....	0,45	1981
INDIA.....	0,42	1975
S KOREA.....	0,36	1982
MALAYSIA.....	0,46	1984
PANAMA.....	0,57	1970
PHILIPPINES.....	0,45	1985
SIERRA LEONE....	0,59	1969
SINGAPORE.....	0,42	1983
TAIWAN.....	0,27	1985

(Preece 1991:19)

Saunders, Stott and Hobbes (1991:63-79) studied income inequality in Australia and New Zealand and compared it with other industrialised countries. They gave the following Gini ratings in the distribution of equivalent net family income:

TABLE 2

<u>COUNTRY</u>	<u>GINI</u>	<u>DATE</u>
AUSTRALIA.....	0,31	1981-82
CANADA.....	0,30	1981
GERMANY.....	0,25	1981
NEW ZEALAND.....	0,29	1981-82
NORWAY.....	0,24	1979
SWEDEN.....	0,20	1981
UNITED KINGDOM..	0,27	1979
UNITED STATES...	0,32	1979

(Saunders, Stott & Hobbes 1991:67)

Compared with the study done by Saunders, Stott and Hobbes, South Africa had a higher Gini rating (0,57) than any of the countries which they surveyed. Their Gini ratings fluctuated between 0,20 for Sweden and 0,32 for the United States of America. These countries, however, were among the top first-world countries and in quite a few of them socialist principles were in effect.

The Sunday Times (Other countries more unequal than us 1991:17) noted that "Brazil, Mexico and Malaysia are all at roughly the same stage of development as South Africa and all have roughly comparable Gini coefficients." It also noted that South Africa was slowly improving its record.

Ringen (1991:6,7) compared the equality and wealth distribution from 1970 to 1986 in Norway where the Gini rating fluctuated between 0,305 (1970) and 0,3048 (1973). He concluded that the trend was towards greater equality but that this was on a household and not on an individual level.

Kincaid (1977:95) discussed the impact of taxation on social security in Britain and showed another aspect of vertical equity in force, namely that "... those who believe that the social security system lessens the gap between rich and poor attach particular importance to the role of general taxation in the financing of social security". He also noted that one-third of the total cost of social security was met from Government taxation.

He felt that the tax system was in itself, an important cause of poverty, and noted that a very large part of social security was in fact managed through the tax system by the mechanism of giving people tax relief (Kincaid 1977:95).

In discussing the progressive income tax, the efficiency of the tax system were considered:

That there is a trade-off between "distribution" and "efficiency" has long been recognized in the literature on income taxation. More progressive tax structures have greater disincentive effects but, in principle at least, result in more egalitarian income distributions.

(Stiglitz 1976:1)

It is always difficult to think rationally about a subject which has all the political and moral overtones that inequality does.

It may in fact be that we should focus our attention not on the distribution of income itself, but on the processes by which it is generated; that our concern should be with equality of opportunity rather than with equality of incomes.

(Stiglitz 1976:26)

In this study on horizontal equity it was necessary to refer to vertical equity and the equality among "non-horizontals" (that is,

taxpayers earning different incomes). Progressive tax rates ensured that the rich, or those who were more well-off, contributed more to the Government coffers than the poor or lower income groups. In this way income redistribution attempted an equalization among income groups. The Gini coefficient measured the differences in income between the high and low income-earners in a country in an attempt to compare the differences. This revealed those countries where incomes were "most equal" or where the "poor" and "rich" earned almost the same.

2.4. HORIZONTAL EQUITY DEFINED

"Equity" as such was defined in detail in paragraph 2.2. Definitions of "horizontal" and "horizontal equity" will now be discussed.

According to the Oxford English Dictionary (1989:384), "Horizontal" denoted among other things, "a relationship, movement, etcetera between a social group of a particular status, class, age-group, etcetera and another of similar specifications, as opposite a 'vertical' relationship with higher (or lower) authority, class, age group etc". It also quoted an extract from H.G.Wells in Work, Wealth and Happiness of Mankind (1932:540) that "The only remaining physical differences between man and woman are becoming horizontal, ie differences between individuals in the same class, and not vertical differences in which all women are put below men or vice versa." ... and W. Mailer (1959:374) said that "The old exploitation was vertical, the poor supported the rich. To this vertical exploitation must now be added the horizontal exploitation of the mass by the State and by Monopoly".

In the literature various definitions occur for "horizontal equity" specifically applied to income taxation:

"... the command that equals be treated equally..."

(Kaplow 1989:140)

... the traditional principle of equity, taken to mean "equal treatment of equals," is logically separate from the more recent notion of horizontal equity which suggests that the relative positions of individuals' before and after-tax income be maintained for horizontal equity to be achieved.

(Berliant & Strauss 1985:179,180)

It is normally defined as a situation in which families with the same standard of living are treated equally in a system of transfers and taxes. In other words families with the same initial living standard experience an equal change as the result of redistribution.

(Habib 1979:283)

"...taxpayers with equal incomes should pay equal taxes."

(Anderson 1985:363)

"... taxpayers in essentially equivalent circumstances should bear essentially equal tax burdens ... "

(Blum & Pedrick 1986:100)

"Equal tax treatment of persons in the same economic circumstances"

(Hettich 1983:417)

Le Grand and Reschovsky (1971:475-486) discussed horizontal equity from a more complicated viewpoint, concentrating on what was needed to achieve horizontal equity between states and concluded that only "merit" goods must be considered for horizontal equity:

Merit goods are goods which society decides it is every individual's right to possess; thus a revenue sharing program should award grants to every state sufficient to

meet their costs in providing those goods. So far as horizontal inequities are concerned, Thurow argues that these are best measured by disparities in the ratio of public expenditure benefits to tax effort in each state (called benefit-effort ratios by Thurow) and therefore a revenue sharing program should have as its third goal the elimination of these disparities.

(Le Grand & Reschovsky 1971:475)

Although what they discussed referred to horizontal equity between states in the United States of America, it could be applied to individuals as well. That is, horizontal equity was achieved by the elimination of the disparities between the benefits to individuals or even the incomes earned by them compared to the particular tax "efforts" which they had to make.

All these definitions referred to the same basic requirement in tax legislation, namely that no discrimination should be made between taxpayers on any grounds but their income and, in this respect, Berliant and Strauss' definition would appear to be the closest. Anderson's simplified definition was easiest to apply to the "new" South African situation, namely that all taxpayers, irrespective of whether they were married (either husband or wife), or unmarried, must pay the same tax on the same income. This ignored the economic reality of one-breadwinner families versus two-breadwinner families.

The definition of Berliant and Strauss (1985:179,180) applied with reference to Hettich's shorter definition took the family size into account. That is, that the tax must actually look at the economic circumstances of taxpayers, as tax was an economic reality introduced to solve economic problems. This could then take account of one-breadwinner and two-breadwinner families.

If the smallest economic unit was considered to be the household, and in order to provide for one-breadwinner families then Habib's definition was the closest and this will be used in this study.

Horizontal equity was an elusive goal and was not easily attained. Goetz (1978:805) felt that "...in absence of identical tastes and a single type of ability no income tax is consistent with horizontal equity ...".

2.5 PROBLEMS ASSOCIATED WITH HORIZONTAL EQUITY

Horizontal equity has been studied from many angles and a broad review of this follows. The literature studied mainly discussed problems with horizontal equity and, in specific terms, concerned the measurement of horizontal equity or rather inequity, efficiency, the cost of horizontal equity and the influence of tax reform via tax preferences on horizontal equity and on tax evasion.

2.5.1 MEASURING HORIZONTAL EQUITY

It is not easy to measure horizontal equity. It is easier to measure the inequity(ies) that exist. The measure could be purely the difference between the taxes paid by two individuals who had the same income, but who paid different amounts of tax because of certain exogeneous difference(s). It would appear to be purely a matter of add and subtract to measure the inequity, but it is more complex than that and depends on factors such as the definition and classification of the different taxpaying groups, when they are considered to be treated inequitably.

As equity appeared to be an elusive matter, it might have been more a question of analysis of the inequities rather than a measure of the equity.

The different measures of horizontal equity will only be summarised briefly here, but the horizontal inequities between individuals in South Africa over a number of years will be quantified in Chapter 6.

Mention could also be made here of the classification of taxpayers, as this affected the measures for horizontal equity. Anderson (1985:363) felt that individuals had to be placed into groups of equally-situated taxpayers in order to analyse the minimum tax from a horizontal equity perspective:

Equally situated taxpayers are those having the same or similar amounts of income, where income represents ability to pay taxes. The need for this classification system follows from the horizontal equity concept, which holds that taxpayers with equal incomes should pay equal taxes. This concept of horizontal equity also implies that a comprehensive measure of income, rather than statutory taxable income, be used as the criterion for classification.

This negated all discrimination on other grounds. The one-breadwinner family was not the same as the two-breadwinner family. In South Africa taxpayers were classified in one of three groups, namely unmarried taxpayer, married taxpayer (which excluded a wife) and married woman. The unit of taxation will be discussed in more detail later in this study.

Different researchers developed different measures or different ways of measuring horizontal equity and inequity and their views will be discussed briefly.

Anderson (1985:365) used the coefficient of variation to measure horizontal equity when comparing the different minimum tax provisions in the Tax Reform Acts from 1969 to 1982. He divided the taxpayers into different groups according to their incomes. He called them "equally situated taxpayers" and he based the division on expanded income.

Anderson (1985:364) assumed that the expanded income most accurately reflected a taxpayer's ability to pay taxes within the limitations. He defined expanded income as adjusted gross income plus tax preference items excluded from adjusted gross income minus investment interest to the extent that it did not exceed investment income. The taxation of investment income was excluded from this study except insofar as it affected horizontal equity between taxpayers.

Stiglitz (1976:1), in considering the "trade-off between 'distribution' and 'efficiency'", noted that the following judgments were involved:

- Empirical judgments concerning the order of magnitude of the "costs", the disincentive effects, and benefits, i.e., the change in the income distribution;
- Value judgments concerning one's attitudes towards inequality.

He also referred to Atkinson, Dalton and Kolm's measures of inequality as "measures of the percentage of national income which society would be willing to sacrifice if all inequality were eliminated. ... [I]n other words, a measure of total cost of inequality." (Stiglitz 1976:2). This would refer more to the costs of vertical equity.

Stiglitz (1976:2) also considered the cost via a marginal measure of inequality, that is, "how much would society sacrifice to reduce inequality to a given amount?".

Browning and Johnson (1984:176,177) tried to establish the cost of more or less inequality by way of the "income distribution frontier" originally used by Baumol and Fischer (1979:514).

Preferences and options were also considered and it was concluded that the definition of equal position was very vague:

The general conclusion is that definitions of horizontal equity in terms of either income or utility encounter equally debilitating problems of definition.... If horizontal equity is interpreted to mean that tastes are not to count, taxes are based on ability to pay, that is, income and prices. In contrast, in a utilitarian framework, tastes are to count and taxes may, accordingly, discriminate on that basis.

(Goetz 1978:806)

Hettich (1983:418) approached the measurement of horizontal equity from a concept of comprehensive income. He said that, as horizontal equity required equal tax treatment of persons in the same economic circumstances, comprehensive income provided the best measure of economic circumstances. On the other hand, if equality was defined as equal welfare or utility, then comprehensive income may not represent a theoretically satisfactory measure of ability to pay tax as it did not provide a value for leisure consumed and differences in taste and ability could complicate calculations further (Hettich 1983:417).

Hettich (1983:418) identified a second set of problems associated with the notion of horizontal equity which has received less attention. These problems arose once an appropriate index of ability to pay had been defined and was used to evaluate tax

policy. The most common approach was to compare this "correct" standard with the way in which tax liability was measured in actual fact.

According to the principle of horizontal equity, those in equal economic circumstances should pay the same amount of tax. If comprehensive income is accepted as the appropriate index for measuring economic position, a tax system satisfying the following conditions will ensure complete horizontal equity:

- all taxation must be related to income;
- all relevant components of income must enter the tax base; and
- all parts of the base must be subject to the same schedule or rate.

In actual tax systems, the three conditions are generally violated. Income taxes are used together with other taxes such as those on retail sales or property, while the definition of taxable income does not include all relevant components. Furthermore, some components of income that form part of the existing base may be taxed at special rates. As a result of such deviations persons in equal circumstances may be treated quite differently by the tax system.

(Hettich 1983:418)

This violated the principle of horizontal equity and a need arose to measure the inequities.

Hettich (1983:419) noted further that knowledge of what an ideal tax system would look like was useful only if the ideal could be related to what existed in practice.

Since we do not observe tax systems achieving complete horizontal equity, we must analyze the prevailing state of imperfection. This can be done by asking how existing deviations affect the degree of equity that is achieved and by analyzing the effects of changes in the tax system that move it closer to the norm.

Hettich's (1983:425) paper developed a model to evaluate imperfect situations. His method compared the distribution of tax payments with a comprehensive tax base and the distribution of such payments with various alternative definitions of the base, given a fixed government budget. The results of the analysis were also relevant if horizontal equity was used as a justification for equalization grants in a federal state: "The paper shows that empirical measurement is necessary if we are to arrive at a systematic evaluation of policies" (Hettich 1983:417). He did, however, note that

in an imperfect world where tax laws are affected by political changes, differences between actual tax payments and payments that would be imposed if a tax base closer to the ideal were in effect can provide a reasonable guide to assessing equity.... [Q]uantification of existing inequities is essential. As long as imperfections remain a feature of the tax system, it is improper to compare each deviation separately to the norm.

(Hettich 1983:425)

Habib (1979:294), on the other hand, worked with living standards (a concept equally difficult to quantify) as opposed to comprehensive income. He concluded that a direct implication of his analysis was that the pattern of tax reduction for family size required for horizontal equity could be determined on the basis of given assumptions about equivalence scales and the desired degree of progressivity.

Any attempt to define the degree of horizontal equity associated with family size must begin by establishing a basis of comparison for the living standard of families of different size. One must be able to define incomes at which the living standard of a family of any size is equivalent to that of a family of some other size. For this purpose equivalence scales have been developed which express the relative needs of families of different size in relation to an arbitrarily chosen base family size.

(Habib 1979:283)

A progressive tax system also affected the after-tax income available to the family for use on both essential and inessential goods. The South African tax system was a progressive one. Although the husband and wife both worked and earned the same income, their total tax was different from the couple where one spouse was the breadwinner and earned the same as the combined income of the previous couple. The tax was also different where the wife was the only breadwinner, but she could choose to be taxed at her husband's married-person rate instead of at the married-woman rate. The rate system will, however, be changed from the 1996 year of assessment.

Habib (1979:284) also noted that in the literature, the degree of horizontal equity was linked to the pattern of variation of tax reductions with family size. Income and the variation of reductions with family size were compared with estimated equivalence scales.

Most - if not all - analyses of horizontal equity have not recognized the role played by the progressivity of the tax system ... how the degree of progressivity interacts with the pattern of scale economies and derives the conditions for alternative structures with respect to family size and income.

(Habib 1979:285)

Hamlin (1985:116) gave the three basic propositions for analysis of horizontal equity concerning, "in turn, the definitions of the group over which horizontal equity is sought, the definition of equity itself, and the nature of the political environment implied by federalism". Although he considered horizontal equity from a federal viewpoint, the first two "propositions" held true for consideration of individual horizontal equity as well. The general political environment was also a factor as Hamlin's analysis was done in a federal context. It was, however, possible to convert his basic propositions to suit the 'local' South African situation and still consider the unique South African political environment. (Political considerations are discussed later in the chapter with reference to tax reform.)

The problem of classification of taxpayers (which was a considerable problem in South Africa) and the problem of measuring equity, which is more a case of measuring inequities, were the problems associated with the measurement of horizontal equity. There was no consensus about how to measure either equity or inequity - every researcher developed his or her own measures. Should one look at families or at individual taxpayers? The answer to this question was not clear. This study will look at the economic unit.

It was clear from the above that no hard and fast rule existed for the measurement of horizontal equity and that this was indeed a difficult subject to approach. It was also clear that there was no shortage of measures to apply to the different circumstances and that, during the last twenty years, a great deal of work has been done on this problem elsewhere in the world, even though no clear-cut solution presented itself. In South Africa very little work has been done to date, but this study will measure the equity, or inequity, of taxes payable by looking at the taxes payable by the economic unit (normally the family).

2.5.2 EFFICIENCY AND COST

How efficient was the economic system in striving for horizontal equity? Was it a practical goal? Did it cost too much to obtain horizontal equity? In discussing efficiency and cost of horizontal equity, the disincentive effects of redistribution of income via income taxes were considered, that is the costs to the government and the individual to provide for the underprivileged. This would appear to be more a case for vertical equity, but to achieve horizontal equity a certain cost of redistribution was also involved. (For example, taxing all individuals who earned the same income at the same tax rates, even though some of them were married and thus saved some money by living together whilst other married couples only had one breadwinner supporting the entire family). The disincentive effect of taxing wives who entered the labour market at a high marginal rate (compared with colleagues doing exactly the same work but who paid lower taxes) was presumed to have cost the country many trained workers (see Chapter 5).

In a study done by Browning and Johnson (1984:176) to establish the "trade-off between equality and efficiency" they concluded that "the marginal trade-off between equality and efficiency is quite severe even when labor supply elasticities are low and despite a modest total welfare cost of the current tax-transfer system ...". They only evaluated the labour supply effects and ignored other behavioural effects.

The most striking finding is that marginal cost is quite high even for modest labor supply elasticities. For example, in the benchmark case ... the disposable money income of upper-income quintiles of households is depressed by \$9,51 for each dollar increase in the disposable money income of lower income quintiles. When income equivalent values that take account of the value of leisure are

compared, the marginal cost for this case is estimated to be \$3,49.

(Browning & Johnson 1984:175)

They also noted that inefficiency in the allocation of resources was costing money: "Income redistribution is not a socially costless endeavor because the policies required to accomplish it generally produce misallocations of resources" (Browning & Johnson 1984:175).

Stiglitz (1976:1) studied the trade-off between distribution and efficiency and commented that, although more progressive tax structures had a greater disincentive effect, they resulted in "more egalitarian income distributions" and "... the cost in loss of efficiency and disincentives is too great relative to the benefits in attaining a "better" income distribution, at least at the margin".

Varian, in The New Palgrave. A Dictionary of Economics (1987:275), was concerned about efficiency and noted that "[t]he issues of equity and efficiency are central aspects of most economic problems". He felt that in the political domain it often seemed that concerns with equity - or at least distribution - outweighed concerns with economic efficiency when policy alternatives were considered. "... [T]he natural choice is equal division. But even if equal division is a fair way to divide the bundle initially, it may not remain fair..." .

Sgontz (1984:249) also noted the cost resulting from the disincentive effect on the secondary earner or married couple, mentioning that "a lower marginal tax rate for secondary earner would increase efficiency" and "efficiency increases as marginal tax rates vary inversely with supply or demand elasticities".

Hamlin (1985:116) considered horizontal equity from a different viewpoint, namely that all equally situated taxpayers must receive

the same services from government for which they paid the same taxes, "[t]he balance between the contributions made and the value of public services returned to the individual should be the relevant figure". But, as pointed out earlier, tax was not only collected to provide public services, but to redistribute income from high-income earners to low or no-income earners. Hamlin, however, then redefined horizontal equity by comparing after-tax incomes, "[t]he fiscal structure is equitable in this primary sense only if the fiscal residua of similarly situated individuals are equivalent". He defined horizontal equity as being the situation that existed when the after-tax incomes of similarly situated individuals were the same.

Baumol and Fischer (1979:514) offered some theoretical grounds for believing that an approximation to equality achieved via the traditional instruments - transfer payments (discussed in more detail later) and progressive taxation - would cause an income loss far more serious than many have realized. "... [A]ny attempt to guarantee absolute equality of incomes using only progressive income taxes and transfers for the purpose must, at least in theory, reduce society's output to zero!".

They furthermore noted that

[a] comparison of the income combinations that are feasible under taxation with redistribution and under wage rate differentiation confirms that under rather natural assumptions about individuals' behavior, the second set of policy measures [by way of wage rate differentiations] can permit far more equitable income distributions without reducing total output substantially. Indeed, in our example, complete equality merely reduces total output to 2.9 from its maximal value of 3.0.

(Baumol & Fischer 1979:525)

Their suggestion, however, that wages be differentiated to ensure equality rather than to do so via taxation, would be extremely difficult to implement in practice. Wages provided the incentive for harder work, provided compensation for better training or more intelligence and provided the incentive to take on more responsibility. If the less trained, less diligent and less responsible workers received the same salary as their superiors, would anyone try to do a better job?

It was interesting to note that where Le Grand and Reschovsky (1971:475) considered horizontal equity from a federal viewpoint (defining it as "equal benefit-effort ratios for all states"), they showed that the "benefit-effort equalization formula resulted in horizontal equity between states (in the United States of America) at a cost of approximately \$30 billion".

Meade (1978:7) considered "economic efficiency" in the "costs of administration and compliance" as a desirable goal for a tax structure, differentiating between the costs of administration involving a simple tax system and the costs of compliance, which were " ... the costs which the private taxpayers must incur in order to cope with their tax liabilities. There is evidence that such private compliance costs are often heavy and in many cases much heavier than the official administrative costs themselves" (Meade 1978:18).

Meade (1978:18-21) gave three reasons for tipping the balance away from compliance costs in favour of official administrative costs where it was reasonably possible to make a choice of administrative arrangements to ensure this effect, namely:

- 1) administrative costs are themselves met from taxation which can itself be determined with reference to fairness of tax burden, whereas compliance costs fall on the private taxpayer and can be markedly regressive in their incidence;

- 2) compliance costs are likely to be much resented by taxpayers, particularly where much time and trouble must be spent by small taxpayers only to show a very low or indeed a nil liability to tax;
- 3) administrative costs are easier to ascertain and more open to public scrutiny than are compliance costs.

It could be deduced from the above that to achieve a certain equality or equity via tax would involve a substantial cost. This would lead to inefficiency in the marketplace, with labour supply and in the redistribution of taxes. To obtain horizontal equity different people were taxed differently and if one paid more tax than another, the one that paid more tax might be induced to work less. Tax collection costs also affected the efficiency of the tax system.

2.5.3 TAX PREFERENCES, CAPITALIZATION AND TAX EVASION

The horizontal inequities referred to are tax preferences and the process of competitive resource allocation is either the capitalization or the erosion of tax preferences.

(Goetz 1978:803)

Horizontal inequities were normally caused by legislation which provided certain tax credits or preferences to certain groups of taxpayers. (Groups such as farmers (the deduction of capital improvements), married men (lower tax rates and higher rebates), manufacturers who purchased machinery (allowances on these assets in certain circumstances) and people who earned less than a certain amount per annum.) This was done either by way of cash grants, tax reductions, rebates or credits to expand certain activities or help in circumstances of need. These transfers may not always have had

the desired effect (for example an allowance being granted to ensure an extension of the activity) while other taxpayers abused the advantages meant for certain groups of taxpayers in order to avoid paying their rightful amounts of tax. In the following paragraphs the nature of tax preferences, the capitalization thereof, and tax avoidance through tax preferences will be discussed.

2.5.3.1 Tax preferences, transfers and income tax credits

Transfer activities come in many forms. Some involve direct payments to recipients, either in money or in-kind benefits such as food, medical services, or housing. There are, however, other forms of transfers: price supports, entry restraints, price ceilings, tariffs, quotas, and subsidies [which] transfer wealth just as surely as direct income transfers. Thus, when we speak of transfer activities we include a broad range of policies intended to increase the economic welfare of various subgroups at the expense of others in society.

(Gwartney & Stroup 1986:112)

Goetz (1978:799) preferred the term "tax preferences", because it was more neutral than the other alternatives and he noted that "the presumption [is] that a preferential rate of tax is granted to an activity, which is deemed to confer some benefits over and above any tax savings that accrue to taxpayers, in order to expand the level of the activity".

2.5.3.2 Capitalization of tax preferences and transfers

Gwartney and Stroup (1986:123,124) compared the economy to a balloon:

If you push it in one place, it bulges in another ... When changing conditions reduce the attractiveness of earning opportunities in one area, people will shift to other more attractive options.... This ... indicates that once allowance is made for factors such as risk and nonpecuniary benefits, competition will tend to equalize the after-tax rate of return among earning opportunities.... Thus low interest loans cannot make farming or small businesses more profitable for long. Neither can tariffs nor quotas make protected industries more profitable in the long run. The best the transfers can do is create windfall gains, which competition will erode in the long run.

Goetz (1978:810) showed that the granting of a preferential rate of tax was "conceptually equivalent to the creation of an asset which, if correctly priced, eliminates the tax saving by applying the capitalization or transitional gains principle to an examination of the structure and reform of preferential tax provisions".

Goetz (1978:798) considered the preferential provisions of the tax laws as "rent-generating restrictions" because the tax saving brought about by the provisions would be capitalized. He noted that "if preferential tax provisions are capitalized, they will only temporarily serve the goal of expanding the consumption of the commodity." He felt that this view of tax avoidance required a reinterpretation of horizontal equity.

It was also argued that

[A]ny government program which confers a privilege, ie, a monopoly position, on any group will ultimately be unsuccessful in that the privilege will only generate transitional gains which will subsequently be capitalized. Therefore, successors to the original recipients of the privilege will be no better off than if the privilege were

not to exist; however, they would be harmed by the elimination of the privilege.

(Goetz 1978:799)

Goetz (1978:800) further warned that, given the assumptions of a single type of ability and common tastes, horizontal equity might not arise from an existing tax structure, but could only arise from changes in that structure: "We have the paradoxical situation in which the elimination of tax preferences which are commonly thought of as constituting horizontal inequities would itself constitute a horizontal inequity".

He also pointed out that although the cancellation of a tax privilege would violate horizontal equity, "... the goal of the legislature, the expansion of the activity, will have been achieved" (Goetz 1978:801).

This formulation illustrates the premise that if capitalization is complete, an existing tax preference is not a source of horizontal inequity. In fact, the tax system is horizontally equitable, since the pre-tax and post-tax utility levels are identical and any change in the tax preference would alter the utility ordering and therefore cause horizontal inequity.

Equality of preferences requires identical tastes; equality of options refers to identical opportunity sets. In tax design, horizontal equity requires that if, in the absence of taxation, two individuals would have the same utility level, they should have the same utility level in the presence of a tax.

(Goetz 1978:801,802)

Gwartney and Stroup (1986:111) debated the merits of the redistributive state and generally focused on the proper trade-off between more income equality and more total income. "... How much

economic growth should we sacrifice in order to promote the welfare of the poor and disadvantaged? How much inequality should a just society accept?" Taxes, transfers and regulatory policies were perceived to be "adjustment levers available to fine-tune the economic machine that grinds out goods and services".

They also felt that taxpayers and transfer recipients were "human beings, not sheep who can be shorn at will, their wool automatically growing back for the next shearing season" (Gwartney & Stroup 1986:111). People would act to their individual advantage, in response to changes in legislation. "Similarly, since the political process, like the market, results from individual choices, it may or may not yield its stated goals. Thus, it is not obvious that income transfers emanating from the political process will promote economic equality or even help the targeted groups" (Gwartney & Stroup 1986:112).

Baumol and Fischer (1979:514) noted the disincentive effects of moves towards equality and were of the opinion that these, "after a point, lead to unacceptable losses in real income." They also offered some theoretical grounds for believing that an approximation to equality achieved via the traditional instruments - transfer payments and progressive taxation - would cause an income loss far more serious than was realized.

Balcer and Sadka (1982:303) concentrated in their study on family size and noted that many economists recommended income-tax credits as the proper way for the income tax system to treat differences in the household size. "And indeed, most states and countries have incorporated tax credits or some imperfect variant of them (eg tax exemptions) into their income tax laws." They further mentioned that "[w]hether a tax credit is a good or bad policy depends on how differences in family size manifest themselves in the consumption patterns (preferences) of households of various sizes".

2.5.3.3 Tax avoidance with capitalization of tax preferences.

As a result of the attractive tax treatment of various activities, persons other than the intended taxpayers might participate in such activities (for example members of certain professions that farmed on a part-time basis because of the tax advantages to farmers which could be set off against professional income while, at the same time, capital could be built up on the farm). Sometimes, these credits were even obtained in a dishonest manner. The taxpayers pursued the activity purely for the tax benefit and not as bona fide participants. This resulted in a distortion of the activity, so that there was less help for those who needed it and diminished the tax income from other activities originally intended to help to "provide" for these credits.

Tax avoidance can be defined as the legal reduction of tax through the use of preferential provisions of the tax laws. These preferential provisions of the tax system have been referred to as either tax loopholes, tax incentives, or tax expenditures.

(Goetz 1978:799)

Strader and Foglassio (1989:39) addressed the problem of taxpayer non-compliance in an international context and noted that a "growing concern in almost every nation today is the amount of 'tax gap' (that is, the difference between the taxes actually paid and what would be paid if all taxpayers filed complete and accurate returns and paid all the taxes they owe). Because the tax gap is often quite substantial, the problem of taxpayer non-compliance is one that requires careful scrutiny". Their article presented three of the main factors said to affect taxpayer non-compliance, namely, rate structure, tax complexity and control system. In South Africa the rate structure, namely the provision of different rates for married persons, unmarried persons and married women, affected horizontal equity and not only the non-compliance aspect.

Avoidance also affected horizontal equity by making it possible for some people to pay less tax, thereby having an unfair advantage over their peers. It could be argued, however, that they were not equal to the others as they were able to obtain these tax 'advantages' intended to ensure equality or equity for them.

Gwartney and Stroup (1986:135) concluded with this very concise summary of the problems connected to transfers:

The impact of transfers on economic equality and poverty is far more complex than most people realize. It is not obvious that the political process will yield egalitarian transfers. And, even when it does, the net egalitarian impact may well be quite modest. Since annual income is a highly imperfect measure of economic status, some slippage can be expected there.

They also noted that market adjustments eroded some of the redistributive effect of egalitarian transfers, and an expansion in transfers of any variety encouraged rent seeking which lead to higher marginal taxes, both of which reduced aggregate output.

Furthermore, means-tested transfers presented the poor with high marginal tax rates which, in turn, acted as a disincentive for them and discouraged participation in the work force (a portion of the transfer benefits was merely replacement income). Transfers that were based on a means test (that is, transfers from the government to the lower-income groups, such as the social security payments in the United Kingdom) meant that the recipients worked less as they received income from the State because of the fact that they were poor and so they did not need to work for this income. These transfers were thus a disincentive and discouraged participation in the work force. As they did not work, or worked less, their knowledge of their work deteriorated or was forgotten.

Over time, this resulted in a depreciation of skills because these were not used. Income was received without applying the skills previously required to earn income. This further reduced their abilities to help themselves. Gwartney and Stroup (1986:135) also noted that public sector antipoverty programmes tended to eliminate or reduce voluntary charity, which was likely to be more cost effective as it operated on a limited budget and was often managed along business lines. "Thus when one considers structure and side effects of transfers, their apparent failure to promote equality and improve the economic status of the poor is not surprising".

Lilla (1986:139,140) concurred with Gwartney and Stroup, but pointed out that, although Americans felt strongly about equality and believed in open economic opportunity, they were not concerned about the current distribution of income.

Surveys conducted by social scientists ... all bear out this fundamental point. And, no matter what their class, they have no desire to make that distribution more equal.... When asked about their economic expectations, about justice and fairness, they will speak about the importance of equal opportunity, especially in education, but also about effort, mobility, tenacity, and keeping what you earn. And rather than speak about their individual income they will focus on their children and their children's future. This point is very important. Family, not the individual, is their "unit of analysis" in thinking about distributive matters; some far distant future, and not the present, is their time frame.

(Lilla 1986:139,140)

Tax preferences - the government's way of attempting equality or horizontal equity by giving help either outright or via preferential tax treatment, transfers or income tax credits - did not always achieve equity as these preferences drew other taxpayers to the activities and lead to their capitalization. Although this

normally expanded the activity, it did not necessarily bring about horizontal equity and it could be used as a means to avoid tax.

Furthermore, the simple transfer of monies to, for example, the poor in an equilisation attempt could have lead to a work disincentive which, in turn, could have resulted in a depreciation of skills and subsequent inability to work. Although tax transfers and preferences were the way to achieve equity, care had to be taken to ensure that self-reliance was not discouraged and that effort was still part of the generation of income.

2.5.4 GOVERNMENT ACTIONS AND TAX REFORM

Tax reform was needed to create a "fair" tax system, to bring about horizontal equity and for political purposes. Reform disturbed (or achieved) horizontal equity because reform changed the status quo, and gave tax advantages to, for example, the underprivileged or taxed the privileged more strenuously.

Van Blerk (1990:7) discussed tax reform as follows:

Tax systems are seldom static - it is a rare year when a country introduces no change to its fiscal legislation. However, the concept of tax reform entails more than legislative amendment of a tax system. Tax reform can be defined as a process which results in fundamental changes to the means whereby a government levies taxes, these changes relating to:

- the number and types of taxes;
- the tax base on which these are levied; and
- the tax rates.

Reform gave government the opportunity to provide incentives in certain industries or businesses and to give tax credits or

subsidies for families and individuals in certain, less privileged groups.

These credits or transfers were eventually capitalized (see paragraph 2.5.2). Thereby, rent preferences were created which were abused. This led to avoidance/evasion and disturbed horizontal equity - and reform had to start again.

Thus, tax reform was extremely important in the tax process to ensure or attempt to ensure horizontal, and indeed vertical equity, as it was only by reforming tax laws that inequities could be solved. It was, however, noted that reform also instigated other inequities.

Blum and Pedrick (1986:100) noted that tax reform had to be implemented to the end that "equality in taxation" was the guiding principle so that "taxpayers in essentially equivalent circumstances should bear essentially equal tax burdens ..." .

They suggested that "one of the great approaches to equality in taxation would be: if no one pays any tax then it would seem that a state of equality had been secured" (Blum & Pedrick 1986:101). This, however, completely precluded vertical equity as redistribution of wealth did not occur without a mechanism like taxation.

The role played by politicians in the reform process was also a factor as elected officials tended to react to tax legislation with circumspection, considering "their" voters' interests.

[P]olitical advisors would certainly care about horizontal equity. This is true of course since how people are treated is highly relevant to how they will react.... Finally, quite apart from the effects of violating horizontal equity on individuals, imposing requirements of equal treatment as a constraint might limit actions by imperfect government

institutions that do not in fact advance social welfare... [It was suggested] on these grounds that permitting unequal treatment may make arbitrary discrimination favoring certain interest groups more likely.

(Kaplow 1989:148+)

Gwartney and Stroup (1986:112) referred to such discrimination in favour of certain interest groups, as "politically attractive transfers". A politician would consider the interests of "his" or "her" voters when deciding on tax laws as the voters were the ones who kept him/her in power.

Just as self-interest is a powerful motivating force in the market place, so, too, it is in the political arena. There is little evidence that politicians are an unusually altruistic class of citizens. But, even if they were, competition would force them to consider primarily votes when making political choices.

(Gwartney & Stroup 1986:112)

The following types of transfer activity that would help a politician win elections were identified:

- 1) Transfers from many unorganized individuals to concentrated groups of well-organized individuals ... [with a] ... special interest issue that generates substantial personal benefits for a small group of constituents while spreading the cost widely over a large number of other voters. ... [These] special interest groups also provide an important source of campaign workers and financial support.
- 2) Transfers from future to present voters. Policies that provide easily observable, current (before the next election) benefits at the expense of future costs that are difficult to identify will also be attractive to

vote-conscious politicians. The pre-election benefits will enhance the image of the politician with the voters on election day. In contrast, post-election adverse effects that are difficult to identify will exert little negative impact.

- 3) Transfers from the poorly informed and politically inactive to the better informed and more politically skilled. ... Persons with persuasive skills, organizational abilities, and financial resources will exert a disproportionate influence on the political process.

(Gwartney & Stroup 1986:113-116)

It was also stated that "given the nature of the political process, there is little reason to believe that egalitarian transfers will be very attractive to political entrepreneurs." (Gwartney & Stroup 1986:114). They noted that, despite the fact that the poor were a concentrated group, they were less organized and less likely to vote than persons in the higher income groups. According to Gwartney and Stroup (1986:115) only 36 per cent of the population (in the United States of America) aged 18 and over in households with an income of less than \$12 500 voted in 1984, compared with nearly 60 per cent for the rest of the population and "[t]he voter participation rate for unemployed workers has consistently been only about two-thirds of the rate for employed workers".

It was thus clear that equity was not that easy to achieve via a political process that favoured lobbyists with money and/or power to influence policy-makers to their advantage.

Katz (1990:16) felt that tax reform in South Africa benefited from international experience, and that "[t]he political and economic issue of the distribution of wealth is an area in which tax can

play a crucial role, through the application of an efficient tax system".

He saw the role of tax reform in contemporary South Africa as bringing about the distribution of wealth and providing an efficient tax system "that will enable the first world sector of our economy to grow so as to assist it to help the third world sector" (Katz 1990:17). He viewed the features of an efficient tax system as being "a broadening of the tax base; lowering of tax rates and the promotion of tax neutrality" (Katz 1990:18).

Goetz (1978:798) noted the close connection between tax reform, tax avoidance and horizontal equity and said that

[f]ew concepts in the area of taxation can generate more discussion and controversy than tax avoidance and tax reform. Debate over these issues is customarily framed in terms of the desire for or the departure from the criteria of horizontal and vertical equity.... In particular, it can be demonstrated that questions of tax avoidance and tax reform are inseparable from the definition of horizontal equity

As regards tax reform and tax design he said that

[p]leas for additional preferential treatment or complaints against the perceived inequities of existing preferential treatment mark public discussion of both taxation and regulation.... The process of designing a tax system contains the seeds of its own modification whether by piecemeal reform or by the capitalization of existing privilege.

(Goetz 1978:807)

Hettich (1983:417) demonstrated that, in order to reform the tax base, explicit preferences concerning both horizontal and vertical

equity must be incorporated and that evaluation of income tax reforms must take account of the existence of other taxes in the revenue system. Policy recommendations could then be concerned with removing the deviations or "loopholes" that were discovered.

In an imperfect world where tax laws are affected by political changes, differences between actual tax payments and payments that would be imposed if a tax base closer to the ideal were in effect, can provide a reasonable guide to assessing equity. Other approaches to measurement may, of course, be possible. However, quantification of existing inequities is essential. As long as imperfections remain a feature of the tax system, it is improper to compare each deviation separately to the norm. The assessment of policy situations requires quantitative indices according to which imperfect situations as a whole can be evaluated and compared.

(Hettich 1983:425)

Mirrilees (1979:1) isolated equity and economic efficiency as the most important among the criteria that must be satisfied by the structure of principles of income tax reform for personal income tax and he argued that these two goals would best be met by a comprehensive definition of the income tax base. He noted that the integrity of the income tax structure was violated by legislative provisions justified by their incentive effect (Mirrilees 1979:7).

Van Blerk (1990:12) concluded that the last decade has seen fundamental changes in taxation systems worldwide. He also noted that, after a hesitant start during the first half of the decade, the last five-year period has seen substantial declines in corporate tax rates, and even more substantial declines in maximum individual tax rates. There has also been a strong trend towards imposing one of two broad-based types of consumption tax. He asked "What of the next decade?", and noted that the trend towards value-added tax would accelerate and that

[a]s far as direct tax is concerned, it is likely that the countries which impose corporate rates above 40% will move towards this figure at a steady but slowish pace. However, regarding individual tax rates, the target of higher tax rate countries is more likely to be 50% and a reasonably quick move towards this figure is quite probable.

(Van Blerk 1990:12,13)

It was noted that the maximum marginal tax rate for individuals in South Africa was declining. It was the intention of the Minister of Finance to have reduced this rate to 40 per cent within 5 years. From 1992 to 1994, however, no reduction was made in this rate (see Chapter 6) and the proposed maximum rate in the 1995 taxation amendments was 45 per cent (South Africa 1995:Schedule 1).

To achieve horizontal equity the tax system must change. As this involved changing the legislative system, political input via Parliament was required. Politicians were seen to act in their own interest, in the interests of "their" voters and to favour causes which had strong lobbyists or which were favourites in the press.

2.5.5 HORIZONTAL EQUITY AND INDIVIDUALS

Horizontal inequities were most visible in the taxation of individuals. Single taxpayers were taxed at different rates from married ones, married women were taxed at their husband's top marginal rates and then paid a rate of tax different from other taxpayers. Also, a comparison of the tax burden between one-breadwinner and two-breadwinner families was difficult.

The report of the European Parliament's Committee of Enquiry into the situation of women in Europe, "Memorandum on income taxation and equal treatment for men and women" (EC [European Community

1985:158) stated that taxation systems should be neutral as regards their effect on women's work.

The memorandum noted that the proportion of women who worked in the European Community had increased from 33,5 per cent in 1970 to 37,5 per cent in 1982 while men's activity rates remained static. It concluded that this increase appeared largely due to the increased participation of married women and mothers and the increase in single-parent families. This, together with the economic crisis, resulted in more and more women wanting and needing employment (EC [European Community] 1985:158).

Income tax systems that were set up with the intention of benefiting the traditional family (ie husband working, wife at home or earning pin-money and with dependent children), entail in present circumstances a very heavy marginal taxation of the family's second income earner, and will, in many situations, serve as a strong disincentive for the wife to join the labour market.

(EC [European Community] 1985:159)

Another problem that the memorandum identified as affecting a number of women in the community was that of tax rules which had a restrictive effect on remuneration for the work done by the spouse of the head of a business. "Wages paid to a spouse are generally deductible from the taxable income of the head of the business only up to a certain ceiling, which inevitably limits the actual amount paid to that ceiling" (EC [European Community] 1985:159).

A situation where the tax treatment of working women differs, in practice, from that of men, runs counter to the progress already achieved in promoting equality in employment, and may in cases where a woman finds net tax payment increasing upon marriage, act as a disincentive in her decisions relating to employment.

(EC [European Community] 1985:159)

Atchley (1986:3) requested tax equality in spite of political ends and found the United Kingdom government's proposals for transferability of allowances between spouses to be far from acceptable when examined against the simple criterion of equal treatment of men and women, married or single: "... [t]hat the new system should be fair as between men and women seems reasonable. The Government does not disagree. But as to whether there should be equal treatment of the married and the single - ... well, it seems the Chancellor wants it both ways".

She noted that the mortgage interest relief that was given once only to married couples, the same as for a single person, might be seen as a penalty on marriage whereas the proposed transferability of allowances between husband and wife was "clearly discriminatory in favour of marriage" (Atchley 1986:3).

How about the single adult daughter supporting her mother while working; or the parent whose unemployed youngster still lives at home. ... Transferability would also lead to some high marginal rates of income tax generally discouraging wives from working.

(Atchley 1986:3)

Leuthold (1984:98-105) studied the effect of income splitting (dividing the combined income of husband and wife equally between them for purposes of income tax) on the participation of women in the labour force. Her study used data from the 1979 Michigan Survey of Income Dynamics to test the effect of income splitting on the labour-force participation of wives. "The results of a probit estimation showed that the elimination of income splitting and the introduction of individual filing would probably significantly increase the labour force participation of married women" (Leuthold 1984:98).

Thompson (1988:143) criticized the United States system of income tax because it discriminated between individuals on the basis of marital status.

Exemptions even vary depending on an individual's age (over 65) and handicap (blindness). Plus, other legal entities, such as corporations, and trusts, estates, and other fiduciaries, all pay income taxes according to still other tax rate schedules. In every case, the tax treatment of income is not so much a function of the amount of income, as it is a function of the identity of the taxpayer.

Sgontz (1984:249) studied the effect of a progressive tax applied to the aggregate income of a married couple. Both the primary and secondary earner faced the same marginal tax rate. She found that the labour-supply elasticity of wives (who are usually secondary earners) was "greater than that of husbands, and for this reason a number of economists have asserted that a lower marginal tax rate for the secondary earner would increase efficiency".

Blau (1984:200) proposed an explanation for the fact that while wages of married women contributed to equalizing the distribution of family wages, the equalizing effect declined during the early stages of the married life-cycle. This was normally the time when the wife stayed at home for a certain period to bear and raise children.

Balcer and Sadka (1982:303) evaluated the common practice of allowing income tax credits (or exemptions) for dependent members of the household. They noted that most countries have incorporated "income tax credits or some imperfect variant of them for their income tax laws" and concluded that "tax credits are desirable if horizontal equity is desirable" (Balcer & Sadka 1982:305). In South Africa, however, no real credits were available to provide a measure of horizontal equity for spouses - the married woman's earnings allowance helped in this respect while it was in use. The

married woman was then subsequently taxed at her own tax rates which reached the maximum marginal tax rate at a taxable income of R50 000, compared with other tax classifications, but her marginal rate was lower than the other tax categories' rates.

It was clear from the above that a serious problem existed as regards horizontal equity in the taxation of individuals. The equity problem arose mainly from the different tax units used to tax individuals and from the fact that families differed in size and in the number of working adults. Their tax treatment differed also from the treatment of single individuals in such a way that inequities were perceived. These inequities will be quantified later in this study.

Horizontal inequities arose in the taxation of individuals by reason of the classification of individuals according to sex and marital status. The European Commission advised that the tax treatment of women, and especially married women, must be looked at as it was a disincentive to work as the "traditional family" had come to entail a working wife. They also noted that equal employment opportunities must have equitable tax treatment. There were problems with horizontal equity, as a result of the tax classification, all over the world - in the United Kingdom, United States of America, Australia and elsewhere changes to the taxation system were continually being made in an attempt to adjust for this. Many significant changes in the way in which a married couple was taxed have been made overseas during the past decade.

2.6 CONCLUSION

"[A] neutral tax system is one which minimises as far as possible the impact of the tax structure on economic behaviour, including

business organisation, work effort and saving" (Neutrality and equity in taxation 1990:161). Marital status could be added here.

The Margo Commission divided equity (which is closely linked to neutrality) into horizontal equity and vertical equity:

The former requires that similar individuals be treated similarly or that persons in the same situation be treated equally or that individuals and families in similar circumstances bear the same taxes. Vertical equity, on the other hand, requires that those in different circumstances bear appropriately different tax.

(Neutrality and equity in taxation 1990:161)

Coleman (in The New Palgrave. A Dictionary of Economics) (1987:169) considered an equal distribution of benefits as "natural, self evidently right and just, and needs no justification, since it is in some sense conceived as being self justified." He said that equality needed no reasons, only inequality needed reasons; that "uniformity, regularity, similarity, symmetry,... need not be specially accounted for, whereas differences, unsystematic behavior, changes in conduct, need explanation and, as a rule, justification ...".

In this chapter a literature review of horizontal equity was made starting with the definitions of equality and equity and progressing through to the problems encountered with horizontal equity. The word "equity", which denoted more of a "fairness", a "justice" among people rather than the mathematical precision implied by "equal", was considered the more correct term to use with the concept of horizontal equity. It was also used most often in the literature researched.

A short review of vertical equity was given for comparison purposes to indicate the justice or equity between rich and poor, the additional taxes paid by the higher earners being used to benefit

the less well-off. Horizontal equity was then defined as the equal treatment of persons in the same economic circumstances.

Lastly, the following problems with horizontal equity were noted:

- The difficulties in developing a measure of the horizontal inequities, and the inefficiencies and costs connected to horizontal inequities and the striving for equity

- The provision of tax preferences, the capitalisation thereof and the subsequent use of these preferences for tax evasion

- The role of Government political influences in formulating taxation legislation and tax reform

The taxation of individuals and the horizontal inequities inherent therein will be researched further in this study.

The following applications could be drawn for this study:

Ever since taxation was first imposed it was clear that tax must be fair on the taxpayer and be perceived to be fair. A standard rate would mean that all were taxed equally but this would preclude a provision for welfare and vertical equity. Progressive rates must therefore apply.

As social circumstances changed and tax systems became more complex and sophisticated, so the definition of the tax unit changed. This affected the perceived fair treatment.

The tax unit used in South Africa differentiated between a married person (including taxable income earned by the wife) and an unmarried person. Since 1990, married women were a separate tax unit but a different rate schedule applied and higher taxes were levied on married women than on their spouses, although married

women had a lower maximum marginal rate and a lower tax threshold applied to them.

The new South African constitution would demand equality for all and would not allow for discrimination on the grounds of gender and marital status. All taxpayers should be equal before the law for taxation purposes as well.

In order to measure and achieve horizontal equity, the unit that was referred to should be the economic unit and not the tax unit. That is, not "equal tax treatment in equal circumstances" but equal or equivalent tax treatment in equal/equivalent economic circumstances or for the same economic units.

Hamlin (1985:116) required the following three definitions for horizontal equity:

- The group: here it will be the family or the breadwinner(s) or the household
- A definition of equity: (for this study) the same tax treatment of families/breadwinners in the same economic circumstances
- The nature of the political environment: in the "new" South Africa *equality* is strongly favoured above *equity*.

Other writers who favoured the family or family-related equity were Ringen (1991:1), who concluded that equality improved in Norway on a household basis, Habib (1979:283), who felt that families should be treated equally in a system of transfers and taxes, Blum and Pedrick (1986:100), who said that taxpayers in equivalent circumstances should bear equal tax burdens, Balcer and Sadka (1982:203), who worked on family size and the tax exemptions based thereon, and Hettich (1983:417), who required equal tax treatment of persons in the same economic circumstances. Lilla (1986:140)

also concluded that the family was important as the unit of analysis.

Equal tax treatment with one unit for all taxpayers was required, while a solution was needed to provide equity, horizontal equity, for equal or *fair* treatment of households so that in a two-breadwinner household the married woman was not treated unfairly or did not have an unfair tax liability. Also, the breadwinner in a one-breadwinner household had to have some tax concession for having dependants.

The required horizontal equity would only be achieved by way of tax reform provided by politicians. This research will indicate which reforms suggested for improving horizontal equity, if any, would be considered politically attractive, that is, favoured by the politicians as advantageous to their voters.

Tax reform could create tax preferences and this research must also indicate the extent to which such preferences could be capitalized and used for tax avoidance and evasion.

The next chapter will consider the taxation provisions for individuals in the most prominent Western countries in order to establish a comparative base for the measurement of horizontal equity in other countries and to compare these provisions with current South African provisions.

CHAPTER 3

A HISTORICAL AND INTERNATIONAL PERSPECTIVE OF THE TAXATION OF INDIVIDUALS

3.1 INTRODUCTION

3.2 HISTORICAL PERSPECTIVE

3.3 DEVELOPMENTS IN CERTAIN WESTERN COUNTRIES

3.3.1 THE UNITED KINGDOM

3.3.1.1 History

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3.3.2.1 History

3.3.2.2 Current practice

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3.3.3.1 History

3.3.3.2 Current practice

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3.3.4.1 History

3.3.4.2 Current practice

3.3.5 CANADA

3.3.5.1 History

3.3.5.2 Current practice

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3.3.7 CERTAIN OTHER WESTERN COUNTRIES

3.3.7.1 The Scandinavian countries

3.3.7.2 The Netherlands

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3.4 DEVELOPMENTS IN CERTAIN EASTERN COUNTRIES

3.5 CONCLUSION

3.1 INTRODUCTION

In Chapter 2 the definition of horizontal equity was discussed with special reference to horizontal equity between individuals and with regard to the taxation of married couples. It was clear that the achievement of equity was an elusive goal and the reduction of inequity was the most that could be hoped for.

In this chapter the taxation systems in a number of Western countries, in respect of the taxation of individuals, will be reviewed. Reference will be made to the treatment of married individuals and the separate taxation of married women, or alternatively, the choice of the married couple to be taxed separately or jointly.

This review was necessary as the taxation system in South Africa evolved from those in the United Kingdom and other European countries and it has followed, albeit slowly, the tax reforms introduced overseas. Commissions investigating the taxation system in South Africa, for example the Margo Commission (1987) and the Franszen Commission (1969) have investigated overseas systems and referred to research done in other countries on the matter of taxation reform, equity and taxation of married couples (refer to Chapter 5 of this study where the problems encountered by the Margo Commission are discussed in detail). The steps taken towards separate taxation in other countries could also serve as an indication for South Africa in this respect.

3.2 HISTORICAL PERSPECTIVE

According to Cronjé (1985:19), the first income tax act in the world was adopted in 1799 in the United Kingdom. She also noted that from 1710 in France King Louis XIV levied a tax of 10 per cent on income,

and from 1820 in Prussia taxes were raised on the household's income (Cronje 1985:86,111). In the United States of America married couples were taxed as separate individuals under the initial version of the modern individual income tax act enacted in 1913 (United States Congress Joint Committee on Taxation 1980:3,19).

Thus, only since the nineteenth century, with the exception of France, were income taxes levied and in the "New World" (outside Europe) income taxes were introduced only from the beginning of the twentieth century.

THE TAX UNIT

The tax unit may be the individual, the company, the close corporation or various other units, depending on the country that levied the tax. Individuals, however, may marry. In many Western countries, the married couple was considered to be the tax unit. This 'unit' comprised two people, which previously were individually responsible for tax. The married couple was considered to function as an economic unit using one house or dwelling for both individuals and thus saving on rent, furniture and even food, as a result of economies of scale, when compared with a single individual who lived on his or her own.

The adoption of the married couple as a tax unit for purposes of income tax must be viewed against the background of social history. The prevailing system of assessing the married couple as a tax unit was introduced in 1914, many years before married women in South Africa started entering the labour market in increasing numbers. The system is moreover related to the basic law regarding community of property, in terms of which the woman's property ceases to be hers upon marriage, in the sense that she cannot, without her husband's consent, alienate property or enter into contracts.

The question of the married couple as a tax unit where both spouses are employed has been the subject of scrutiny since 1951, the time when married women started entering the labour market in large numbers.

(Wessels 1977:11,12)

This chapter will review the tax unit adopted in various Western countries in order to be able to compare the different systems with the system used, and the changes made to this system, in South Africa. A review of those Western countries whose peoples formed the basis of the South African population and which had more or less the same social circumstances as those prevailing in South Africa, will be reviewed. A short review of the taxation of individuals in certain eastern countries is also given for comparative purposes.

3.3 DEVELOPMENTS IN CERTAIN WESTERN COUNTRIES

The taxation of individuals in the following Western countries will be reviewed here: the United Kingdom, United States of America, Australia and certain European countries, with limited reference to the Scandinavian countries.

3.3.1 THE UNITED KINGDOM

As South African tax legislation was taken mainly from the legislation of the United Kingdom, its system of taxation of individuals will be discussed first.

3.3.1.1 History

The first income tax act was adopted in 1799 in the United Kingdom and in 1806 the wife's available income (profit) was already considered to be her husband's for income tax purposes. In 1894 it was provided that where a married couple's income did not exceed £300, the wife would be entitled to the same tax deductions as an individual. It was only in 1909, with the introduction of super tax by means of progressive tax rates, that the principle of joint taxation resulted in a higher tax category for married couples than for single individuals. Since 1914, however, the husband and wife could choose to be separately assessed and from 1918 the married man was allowed a deductible allowance in respect of his wife. (Cronjé 1985:31)

A Royal Commission on Income Tax in 1920 expressed the view that the joint taxation of husband and wife was not based on the wife's submissiveness but on the rule of taxable capacity. Their report resulted in a higher rebate/deduction for the married man and another deduction from the wife's earnings. This amount was raised to the rebate claimable by a single person in 1942. Pay-as-you-earn (PAYE) rates for the working wife were used from 1948. (Cronjé 1985:32-33)

In 1971 the wife was allowed to choose whether her earned income should be taxed as if she was unmarried and from 1978 a married woman was entitled to her own PAYE repayments and to have any correspondence in connection with her tax matters addressed to her and not to her husband (Cronjé 1985:34).

In 1978 the Institute for Fiscal Studies under chairmanship of Judge Meade (1978:377-8) listed the "conflicting criteria for the choice of tax unit" and noted that "the treatment of the tax unit must inevitably be a matter of compromise between a number of conflicting considerations".

During December 1980 another report on the taxation of married couples was tabled in Parliament and the following four possible systems were discussed:

- An extension of the then current system
- The optional separate taxation of both earned and investment income
- The forced separate taxation of married couples with transferable allowances
- The forced separate taxation of married couples with cash benefits

The system in operation during the eighties was criticised because it was not marriage neutral, it did not ensure privacy of the married woman's tax matters and problems arose when the allowances had to be allocated between the marriage partners. Furthermore, the husband was responsible for the payment of both his and his wife's tax. (Cronjé 1985:38-46) (More or less the same criticisms were levelled at the South African system in representations made to the Margo Commission (Chapter 5).)

The deduction allowed to a married couple, where both spouses worked, was 2,5 times the deduction allowed to individuals and 1,5 times the allowance granted to a married couple where the husband was the only breadwinner. Although the wife could choose to be taxed separately on her earned income from 1971, less than 3 per cent of married women exercised this choice in 1977. Her investment income was still taxed in the hands of her husband. There were also problems of justice with the tax deductions allowed to two married persons over the age of sixty-five, compared with the deductions allowed to two unmarried individuals. A married man and his wife (both over the age of sixty-five) were only entitled to a total deduction of £4 255, which was less than the deduction allowed to two unmarried individuals (Cronjé 1985:47-49)

In 1985 Foreman noted the implications of divorce on the income tax payable and said that tax planning was necessary not only when

taxpayers were getting married, but also when a married couple was getting divorced.

With a divorce the following should be considered for tax purposes:

- That relief be obtained for maintenance payments and mortgage interest paid on the former matrimonial home
- That matters be arranged so that any school fees can be paid from pre-tax income
- That capital gains tax implications of the divorce settlement be considered carefully [capital gains tax was not a concern of this study as it was not a tax levied in South Africa].

(Foreman 1985:16,17)

He further noted that, for payments to be deductible, the payment had to be made under a legally binding agreement or by court order, if the payment was more than £143 (Foreman 1985:16).

Ashby (1986:22) and Rayney (1989:102) considered the tax advantages of marriage and the family. Ashby noted examples of how to "use marriage to your fiscal advantage", especially when a husband employed his wife or vice versa, and how savings affected the tax of a married couple.

Rayney (1989:102) also mentioned that value could be extracted from the family company primarily by employing the proprietor's wife. He did note, however, that "[f]rom 6 April 1990 husband and wife will be subject to the new independent tax rules ... from a tax viewpoint, it becomes largely irrelevant whether the wife receives earned income or investment income" and that "[a] proprietor ... may transfer some of his shareholding to his wife ... to divert dividend income into her hands".

If the couple elected to be taxed separately on their earned incomes, it was "almost as if they are not married". The tax return was still completed in the same way, but all investment income was assessed as

the husband's income. Jackson (1985:98) pointed out that the choice to be taxed separately was mostly beneficial if the couple was to be taxed at higher rates. If the election to be taxed separately was made, however, the husband received the single person's personal allowance instead of the married man's allowance.

At the same time the wife's taxable earned income is no longer treated as the 'top-slice' of the family income which may be liable to higher rates of taxation. The benefit arises from a reduced liability at the higher rates, thus the election can only be beneficial when the combined income is liable to higher rates.

(Jackson 1985:98)

3.3.1.2 Current practice

British tax law changed and with effect from 6 April 1990, married persons were taxed as separate individuals. This was considered by Smith (1990:49) to be "the most radical change in taxation since the introduction of personal tax in any form". It treated husband and wife as completely separate individuals for both income tax and capital gains tax purposes. This meant that each spouse was responsible for his or her own tax return, was assessed on his or her own income and gains, and was given tax relief for his or her own tax deductions and allowances. The investment income of the wife and any pension she received as a result of her husband's contributions was now taxed in her hands. (Ernst & Young 1991:475 and Seymour 1990:92)

Although each person received his or her own tax allowance, a further allowance, called a married couple's allowance, was also initially given to the husband. If the husband's income was not sufficient to utilize all of the married couple's allowance, then the unused portion could be claimed by the wife (Ernst & Young 1991:475). This allowance was severely criticised as a "manifest injustice" by Robinson and Stark (1988:56). It cost the British taxpayer £0,7 billion to provide

childless two-earner couples relative to two single people living apart "... with £400 per annum for life" (Robinson & Stark 1988:56). The two-earner couple received higher allowances than two single people but, according to Robinson and Stark (1988:56), "allowances are usually justified by the existence of dependants such as children or a non-working spouse". A child allowance could only be claimed until the child became independent. The new British law and married couple's allowance favoured marriage and was not neutral to it (Robinson & Stark 1988:48-56).

According to the commentary in Certified Accountant on the 1993 budget, relief for "the married couple's" allowance and the "other allowances and reliefs linked to it, is to be restricted to 20 per cent for 1994/95, and 15 per cent for 1995/96" (The UK Budget 1993:vii). This allowance was, however, increased for those aged sixty-five and over. Thus, the perceived inequity was phased out.

Income from jointly held assets was divided equally between the spouses and taxed accordingly. However, if the husband and wife were beneficially entitled to unequal shares of the capital invested in certain property and the income therefrom or either spouse was beneficially entitled to the capital or income to the exclusion of the other, it was possible to make a declaration to Inland Revenue for the income to be assessed in accordance with the beneficial interest (Ernst & Young 1991:475). Seymour (1990:95) noted that it was "[a] possibility for the high income spouse to transfer assets into joint names so that each of them will be taxed on fifty per cent of the income or make an outright gift of assets to the low income spouse".

Other tax advantages included mortgage tax relief for qualifying interest that could be shared by husband and wife if they both elected to have a part of it. Before 1 August 1988 each person (if not married, but living together) could get relief on a loan of up to £30 000 for mortgage interest, but later loan relief was limited by reference to a £30 000 loan per main residence. Here the achievement of equity was attempted as unmarried couples previously enjoyed an advantage as a result of the system of loan relief per person.

Business expansion scheme relief was also available to both individuals, up to an annual limit, but only against the husband's or the wife's own income. Breadwinner wives were able to get the married couple's allowance - it could be transferred to her from her husband and she could even be able to transfer her husband's personal allowance to herself (Seymour 1990:92). The claim for transferability of the married couple's allowance had to be submitted before the start of the relevant tax year (Budget 1992. 1992:44).

Seymour (1990:93) also discussed ways of shifting taxable income into the most appropriate year when getting married and warned a married couple to think carefully before opening a bank account and making other business-related choices, as a joint account had different tax implications and the couple might wish the lower-income spouse to earn the investment income.

It was now possible for the wife to get tax relief in providing for her pension, whereas in the past the couple saved no tax by providing for pensions if the wife's income was reduced by allowances. From 1990/91 the wife's personal allowance could be set off against her investment income, leaving her earned income to be reduced by pension contributions (Seymour 1990:95).

The disadvantage, as pointed out by Seymour (1990:92), was that spouses were no longer able to set off losses against each other's income but she suggested that if "relief for the loss is likely to be protracted it is worth considering whether to bring the spouse in as a business partner".

Dilnot, Johnson and Stark (1990:31) noted in research carried out by them in 1990 that "the main group to lose will be single-earner couples where the wife is working" (although the husband's allowance could be transferred) and the "main gainers will be two-earner couples who paid any higher rate under the old system, including those who used to elect to be taxed separately ...".

The latest changes included simplified tax for the self-employed, which was basically an administrative simplification, and the self-assessment system (White 1993:65-71).

Until 1992 there were only two rates in the United Kingdom, namely 25 per cent for income up to £20 700 and 40 per cent for income in excess of this amount. Another tax rate of 20 per cent, which applied to the first £2 000 of taxable income, was introduced in the 1992 budget. Taxpayers were also entitled to a personal allowance exempting £3 005 from taxation and the husband received the married couple's allowance of £1 720. This allowance was also available to single parents and newly-bereaved widows/widowers. Personal and age allowances were to be increased in line with inflation in the 1992 budget, except for the married couple's allowance for those aged under sixty-five which remained at its 1991 levels (Ernst & Young 1991:476-7). The lower rate band of 20 per cent was extended by £500 in the Finance Act 1993 to cover taxable income of up to £2 500 and up to £3 000 for 1994/1995 (Murray & Moncrieff 1993:42).

White (1991:166-175) predicted changes in the taxation legislation in the United Kingdom in future, noting that self-assessment would be the way in which taxes would be assessed in future. There would also be a more pronounced line between acceptable versus non-acceptable avoidance. Another influence in the United Kingdom in future would be the advent of the European common market and White noted that the harmonisation of the European Economic Community would affect United Kingdom tax legislation in future (White 1991:175).

In order to prevent income-splitting, or to attempt to prevent it, under the new system of separate taxation of married couples introduced in 1990, the Chancellor proposed in his Budget to make changes to the income tax rules for gifts between husband and wife and for some other settlements (Independent taxation 1989:559). These changes followed the personal tax reforms in the previous year's budget, and the rules for settlements operated in a way that was consistent with the Government's objectives for independent taxation of husband and wife.

The changes will ensure that when independent taxation begins in April 1990 income from simple outright gifts of assets between husband and wife and certain pensions allocated between them will be taxed as the income of the recipient, and not as the income of the person making the gift or allocation.

There will also be a change in the income tax treatment of some trusts where the person who made the trust, or the husband or wife of that person, is able to benefit from the trust income or capital. Beneficiaries of the trusts affected will not be able to claim payment of the basic rate tax suffered by the trustees. This will stop trusts being used to obtain the tax advantages which are no longer available through covenants. The change will take effect immediately for trusts made on or after today. Some existing trusts will be affected when independent taxation begins.

(Independent taxation 1989:559)

It was clear that a continuous process of reform was taking place in the United Kingdom in an attempt to provide equality for both sexes and for one-breadwinner families and for equity in the tax treatment of individuals, although there were still groups of taxpayers who considered that their tax treatment was not equitable when compared with others.

Separate taxation of husband and wife was introduced in the United Kingdom in 1990. This was also the goal for South Africa. South African legislators should also note the provisions made for single breadwinners or one-breadwinner families. The fact that certain allowances were transferable between the spouses and that allowance was made for children, could be considered for application in the South African context too.

3.3.2 THE UNITED STATES OF AMERICA

3.3.2.1 History

The federal income tax system began in 1913 with the ratification of the 16th amendment to the United States Constitution (Cook 1981:7). This Act levied taxes on income according to legal title as determined by state property laws. Subsequent legislative changes led to the current system in which couples could choose to be taxed as a couple or individually.

The period 1913-1947

The first income tax law enacted in 1913 required married individuals to file separate returns if each had income. Although most of the states of the "union" derived their property law from English common law, a few states adopted their laws from Spain. The "so-called 'community property law' recognized an equal claim of the spouses to income attributable directly or indirectly to the efforts of either partner after marriage" (Cook 1981:7).

This meant that married couples who lived in community property states could split their income and each paid tax on half of the joint income, whereas spouses in other states had to pay tax on their own actual incomes. Before World War II, the wife normally stayed at home and the husband was the only earner in the family. This meant that residents in community property states had a considerable advantage over residents in other states as the same progressive rates were applied. (Cook 1981:8)

The United States Supreme Court upheld the community property laws of Washington, Arizona, Louisiana and Texas for federal income tax purposes in court cases in 1930 (United States Joint Committee on Taxation 1980:19-21).

1948

As the tax rates increased during the Second World War, the income tax benefits for the community property states also increased and other states started adopting community property laws. This resulted in the Revenue Act of 1948 which enacted the "community property" principle for federal income tax purposes in all states of the United States. This meant that couples who filed jointly were actually taxed as two single persons who each earned one-half of the couple's total income (United States Joint Committee 1980:22).

Income splitting brought order into this chaotic situation almost immediately by making property arrangements between husbands and wives irrelevant from the standpoint of income tax administration. ... The 1948 legislation re-established tax equality among residents of all states in that, for federal tax purposes, it permitted total family income to be treated independently of state property laws. From then on, virtually all married couples in the United States aggregated and split their incomes, although they were entitled under the law to be taxed separately.

(Cook 1981:8,9)

The period 1951-1969

As the 1948 Act basically created two rates of income taxation, (one for married couples filing jointly, and one for all other individual taxpayers) the single taxpayer was discriminated against. This resulted in a third set of tax rates being enacted in 1951 for "heads of households" who were single taxpayers with certain dependants (United States Joint Committee 1980:23). These rates were more advantageous than the rates applied to single persons.

The Revenue Act of 1964 brought about a general reduction of income tax rates, divided the brackets so that there were more brackets, and carried graduated rates downward (which "extended the benefits of income splitting to low-income joint filers" (Cook 1981:10)).

Changes were also made to the deductions allowed from income, namely a standard deduction of \$300 plus \$100 for spouses and each dependent or, alternatively, the old 10 per cent of gross income deduction. Both deductions were limited to a maximum of \$1 000. This meant that two single people could claim a total of \$600 whereas they would only get a deduction of \$400 if they were married (Cook 1981:10). This was a change in favour of single filers.

1969

The Tax Reform Act of 1969 had, as its main purpose, the "closing of loopholes to privileged classes" (Cook 1981:10). This change also provided lower tax for single filers who had been lobbying for lower taxes as they had been paying more tax than married couples at the same income levels since 1948.

In 1969, Congress concluded that, while some difference between the rate of tax paid by single persons and married couples filing jointly was appropriate to reflect the additional living expenses of married taxpayers, the then current differential of as much as 42 percent could not be justified on that basis.

(United States Joint Committee 1980:23)

The 1969 Act mandated into law the principle that, for any given amount of taxable income, the single return tax burden could not be in excess of 1,2 times the tax due on a joint return (Cook 1981:14). The Joint Committee refined the amendment by noting that "the new rate schedule was designed to impose on middle-income single persons tax liabilities no more than 20 per cent above those for married couples" (United States Joint Committee 1980:23). The law, however, was applicable to all single taxpayers and, whichever way it was defined, this was the creation of marriage tax for double earners and immediately perceived to be so by the general American public. From that day forth the fight was on to abolish the negative effects of joint taxation and, from 1972 to 1976, Congress and various Committees were kept busy debating the issue (Cook 1981:16-18).

The Tax Reduction Act of 1975 increased the standard deduction to 16 per cent of income. It also enacted different minimum and maximum standard deductions for single and joint returns, namely \$1 600 for single returns and \$2 300 for joint returns. In the Tax Reduction and Simplification Act of 1977, the standard deduction was replaced with a flat amount called the "zero bracket amount" or "ZEBRA". This amount was set at \$2 200 for single persons and heads of household and at \$3 200 for married couples who filed jointly. This was an attempt to alleviate the marriage penalty. (Cook 1981:18)

In a historical survey of the progressivity of the United States income tax, Roberts and Samson (1989:12) noted that

[i]n part, this current low ratio is due to a relatively high initial rate (15 per cent) coupled with a quickly achieved, relatively low top tax rate (28 per cent) ... The historical variation in progressivity variables reflects a trial and error approach to refining tax equity. The income tax does represent a tax base that is flexible to the needs of government and society's concept of fairness. Thus, given the fluctuations in rates, brackets, and levels of exempt income, it seems safe to conclude that the changes will continue in the future in the continuing search for the elusive goal of the perfect tax system.

In April 1980 a report was published by the Joint Committee on Taxation (United States Congress Joint Committee on taxation 1980) and there have been some subsequent changes to the income tax act.

3.3.2.2 Current practice

The applicable [United States] rate depends upon whether an individual is married or not and, if married, whether the individual files a joint return with his or her spouse. Certain individuals also qualify to file as a "head of household."

(Ernst & Young 1991:487-488)

Although there were only three rates for the United States (namely 15 per cent, 28 per cent and 31 per cent) an additional rate band was introduced in 1993. The rates applied at different income bands for the four different categories of taxpayer. Before 1993, these categories were as follows:

- A married couple who filed a joint return (the bands were \$0-\$34 000, \$34 000-\$82 000 and above \$82 000)
- A married couple who filed separate returns (the bands were \$0-\$17 000, \$17 000-\$41 075 and above \$41 075)
- A single individual (the bands were \$0-\$20 350, \$20 350 - \$49 300 and above \$49 300)
- A head of a household (the bands were \$0-\$27 300, \$27 300-\$70 450 and above \$70 450)

(Ernst & Young 1991:488)

The bands for a married couple who filed separate returns were almost exactly half that of the married couple who filed a joint return and the single individual and heads of household were inbetween. The head of a household had the most advantageous rates for a single individual. To qualify for head of household status the taxpayer could not be married or could not be a surviving spouse and the taxpayer had to maintain as his home either a household as principal place of abode of dependents or either or both of his parents (Brazelton 1992:80).

The ranges of taxable income were annually indexed for inflation. Some states and cities also levied tax in addition to the federal taxes. This could range from nil per cent to 12 per cent for the states, and up to 3,5 per cent for the cities and municipalities. (Ernst & Young 1991:488)

There was also an "alternative minimum tax" (AMT) to "prevent individuals with substantial economic income from using preferential

tax deductions, exclusions and credits to reduce substantially or eliminate their tax liability" (Ernst & Young 1991:488). The higher of the AMT or the normal tax was payable.

Where the married couple was taxed jointly one of the spouses could be held liable for the tax deficiencies of the other spouse, unless he or she could show that, on signing the return, he or she did not know and had no reason to know that there was an understatement and that the taxpayer could show that it was inequitable to hold her or him liable for the deficiency (Knight, Knight & Lee 1994:19-29). This meant that where spouses had elected to be taxed jointly and had signed the tax return they were both responsible for it and for the taxes and omissions of each other.

Alimony was deductible by the person who paid it, while the person who received it was taxed thereon (Ernst & Young 1991:488). A taxpayer could claim the greater of itemized deductions or a standard deduction which, during 1991, was as follows:

\$5 700 for a married individual who filed a joint return

\$5 000 for a head of a household

\$3 400 for a single taxpayer

\$2 850 for a married individual who filed a separate return (once again, this was half the deduction of the married-filing-joint-return rate)

(Ernst & Young 1991:489)

Itemized deductions included medical expenses up to a certain maximum, certain interest expenses, charitable contributions made to qualified charities, income and property taxes, unreimbursed employee business expenses and certain other job-related expenses (Ernst & Young 1991:489). A personal exemption was also deductible by an individual who was not a dependant of another taxpayer. In 1991 this personal exemption was equal to an amount of \$2 150. An additional personal

exemption was also deductible for a spouse when a joint return was filed, and additional personal exemptions could be claimed for each qualified dependant. These exemptions were phased out as the adjusted gross income of the taxpayer increased. (Ernst & Young 1991:491)

Goldfield (1986:44), in reviewing the tax consequences of marriage, noted that "marriage fundamentally alters the income tax circumstances of the spouses", and he commented upon the importance of prenuptial agreements as "where the property goes" was crucial to be able to separate the property in the case of a divorce.

He listed the advantages of joint returns and noted that the married couple who filed jointly could claim a bigger dependency exemption and that the limitations on deductions would be computed on an aggregate basis. Couples with one working spouse could provide retirement funds for the other spouse, whereas a disadvantage arose where the deductions decreased, for example the dependent child deduction and medical deductions, with the increase of the taxpayer's adjusted gross income. (Goldfield 1986:45-47)

Employees were allowed to start up a "Flexible Spending Account" (FSA) for dependants (physically or mentally deficient children or a disabled spouse or parent) and children under the age of 13. These FSAs were tax deductible (Baxendale, Coppage & Attaway 1993:278-282). This allowed taxpayers to deduct provisions for dependants from tax instead of the usual low child rebates provided for in South Africa. In South Africa there were also no provisions for dependants other than children and supporting a disabled spouse or parent was at the taxpayer's own expense, without help from the Government.

Smith, Ray and Farlow (1990:108-111) also discussed ways of using income shifting between family members to maximise family wealth. This did not only involve income splitting between spouses, which was a legal option, but also the shifting of assets or income in such a way that taxable income accrued to a family member in a lower tax bracket from a family member in a higher tax bracket. They did warn,

however, that these transfers could be subject to income, gift and generation-skipping transfer taxes.

Gittelman (1989:394-396) and McCaffrey (1984:40-46) both discussed tax planning for divorce in the United States of America and pointed to the tax-saving possibilities. Alimony was deductible by the spouse who paid it and included in the income of the spouse who received it, but child support did not qualify as alimony, and no gain or loss was recognized on a transfer of property from an individual to a spouse or former spouse if the transfer was "incident" to the divorce, that is, if it occurred within one year of the divorce (Gittelman 1989:394-396). Mintz (1993:4-9) warned, however, that transfers on behalf of a spouse, even during a divorce, could be liable for tax.

Norton (1991:63,64) noted that "Washington aims to collect a bigger share of the income you earn in 1991" mostly by phasing out up to three per cent of the itemized deduction if the adjusted gross income of the taxpayer was more than \$100 000 and personal exemptions were also reduced by three per cent for incomes of more than \$150 000, leaving the maximum marginal rate for a family of four with an income between \$150 000 and \$275 000 at 34,1 per cent.

The Revenue Reconciliation Act of 1993 increased income tax rates for individuals and did so retroactively: a new thirty-six per cent rate applied to taxable income over \$140 000 for joint filers and surviving spouses, \$127 500 for heads of household, \$115 000 for single taxpayers and \$70 000 for married taxpayers who filed separately (Griffin & Gonzalez 1993:96). This did not impact on the horizontal equity and it made no difference whether the married couple was taxed jointly or separately.

The legislation of the United States of America made provision for a choice of tax unit for married couples, something that has not been recommended in South Africa. There were also various allowances and deductions that provided for the spouse and other dependants which could be a viable option for South Africa. There appeared to be greater horizontal equity in the United States of America as single

breadwinners were provided for by way of the "head-of-household" schedules and specific provision was made for most dependents, not only children. The married woman could, furthermore, choose to be taxed separately. South Africa could apply many of these tax principles to its benefit.

3.3.3 GERMANY

Germany has been levying taxes since the beginning of the previous century, but since then many changes have been made to the way in which individuals were taxed.

3.3.3.1 History

In 1820 Prussia enacted a law that imposed income tax per household. Every house owner, male or female, with their dependents had to pay an amount depending on their income. Persons without a home/household, paid half the tax due on their income. With the passage of time, certain family members were excluded from the tax unit and in the 1891 income tax act of Prussia only the married couple remained as the tax unit of the household. All family members with own incomes were not considered to be part of the household. In 1906 the income tax act still only referred to the married couple as the tax unit and the income of a married woman was included in the income of her husband. This remained so until after the First World War. (Cronjé 1985:86,87)

Although the Income Tax Act of 1920 provided that the incomes of husband and wife were to be added together for tax purposes, it taxed separately income of the wife earned from a career carried on independently from her husband. From 1925 this also applied to the income from the wife's own business. In 1934, however, all income of a married woman was included in the family income for tax purposes in

an attempt to discourage women from working and to alleviate the high rate of unemployment in the country. (Cronjé 1985:87)

The act was changed with the advent of the Second World War as women were needed in the workforce. The wife's income from a career separate from her husband, was taxed separately, but not the income from her own business. This was to encourage women to work in the weapons factories. In 1951, couples were jointly taxed once more, and in 1953, the government decided against the splitting of a married couple's income but in 1957 it was provided that married men and women would be separately taxed. This was changed in 1958 by paragraph 32a of the Income Tax Act which provided that where married couples were taxed together their incomes were added together and divided by two. Married couples could choose to be taxed separately but it was to their advantage to use the system of splitting their incomes due to the sharply progressive rates in use. (Cronjé 1985:90) In 1971 a taxation review committee reviewed the system and the Income Tax Act was amended in 1974. No real changes were made to the system of separate taxation. (Cronjé 1985:94)

3.3.3.2 Current practice

A married couple in Germany could choose to add their incomes together and to use the tax tables for married persons, which basically meant that the tax was calculated on half of the income and then multiplied by two. It was only married couples, widows and widowers and people divorced under certain circumstances during the year of assessment who were allowed to use these married tables. (Cronjé 1985:95)

The effective tax rate for a married couple on a joint income of DM120 000 (24 per cent in 1991) was the same rate applicable to an income of DM60 000 for a single taxpayer in Germany. The maximum marginal rate in 1991 was 53 per cent for single taxpayers (at an income of DM200 000) and 47 per cent for married taxpayers taxed together (for an income of DM200 000) (Ernst & Young 1991:159).

All tax-allowable deductions and expenses were granted "per taxpayer" so that the married couple normally received double the deductions of a single taxpayer even if they were taxed together (Ernst & Young 1991:158-161). There were, however, some instances where the married couple was taxed as one taxpayer and where the single individual received the same tax advantages as the married couple. These instances were as follows:

- A percentage of the income from pension funds, annuities and unemployment funds was exempt from tax up to a certain maximum. This maximum was the same for the married couple and for the single taxpayer. The exemption applied only to employees.
- Employees were entitled to a standard deduction which remained the same for a married couple taxed together.
- Only one deduction, up to a certain maximum, was allowed per married couple or single taxpayer for consulting a tax expert.
- Income from annuities was exempt up to a certain maximum.
(Cronjé 1985:102-103)

The restrictions on the deduction of the standard deduction were lifted and a married couple could each claim the deduction of DM108 per annum, thus a deduction of DM216 per couple. Employees could also receive a standard deduction up to DM3 510 (unmarried individual) or DM7 020 (married couple) for certain insurance payments (Ernst & Young 1991:160).

An income tax surcharge of 7,5 per cent was introduced by a draft bill and would apply from 1 July 1991 to 30 June 1992. This was to finance increased public expenditure (it was called a "solidarity" charge - to provide for the increased liability involved in uniting the two Germanys). It applied to withholding taxes on wages and income tax prepayments. (Ernst & Young Tax News International 1991:6 and Endres

1991:32.) Although the surcharge did not affect the joint/separate taxation issue, it did amplify whatever advantages and disadvantages there might have been, as the 7,5 per cent was charged on the tax already calculated. A similar charge was enacted in South Africa to pay for the 1994 election but this was more gender specific and favoured married women (see Chapter 6).

The maximum tax deduction for residential property erected or acquired after 31 December 1990, was increased from DM15 000 to DM16 500 for the owner-occupier. The children's building allowance (a tax reduction in the first eight years after acquisition of a home based on the number of children) was also increased from DM750 to DM1 000 per child (Endres 1991:32).

The income tax system in Germany allowed couples the choice to either be taxed separately or as a married couple but without the penalties, that is increased marginal rates, imposed on joint taxation in certain other tax systems. This thus automatically provides for one-breadwinner families.

3.3.4 FRANCE

In France an income-splitting system was also in operation. Not only were the incomes of the husband and wife added together, but also the income of the entire household, and the taxes are then calculated, based on a coefficient system.

3.3.4.1 History

Louis XIV levied a tax of 10 per cent on all income in 1710. In the nineteenth century, during the revolution of 1848, an income tax act based on the British one was enacted and from 1871 to 1909 a great

number of changes were made to French income tax legislation (Cronjé 1985:111).

During 1917, a consolidated income tax act was introduced whereby the income of the entire family was added together and taxed in the hands of the head of the household. In 1934 a surtax was added to the taxation of the unmarried taxpayer and in 1946 a family coefficient system was introduced which taxed married and unmarried persons according to the coefficient applicable to them. A value was allocated to each member of the family and the total income was divided by the number of the coefficient. The tax was calculated for a portion and the total tax was this portion times the number of the coefficient. This was based on the assumption that each additional member of the family increased the financial burden on that family and decreased the living standard of the family. (Cronjé 1985:112)

In January 1949 a proportional tax was introduced with a proportional surtax, but the income tax act in operation since 1960 replaced the proportional tax and surtax with progressive rates of income tax (Cronjé 1985:113).

3.3.4.2 Current practice

A married couple had to file a joint return and report dependent children's income, if any. The family coefficient rules were still used to

... combine the progressive tax rate with the taxpaying capacity of the household. Under the family coefficient system, the income brackets to which the tax rates are applied are determined by dividing taxable income by the number of allowances available to an individual. The final tax liability is then calculated by multiplying the tax computed for one allowance by the number of allowances claimed.

(Ernst & Young 1991:142)

The allowances were as follows:

Single individual	1
Married couple with	
no children	2
one child	2,5
two children	3.

There were, however, limits to the tax saving as the tax saving for a married couple was not allowed to exceed FF12 180 for each additional half allowance claimed (Ernst & Young 1991:142).

Cronjé (1985:117-119) listed a number of provisions that treated the spouses as separate individuals; provisions that gave spouses twice the advantage of unmarried taxpayers; provisions that gave spouses a bigger advantage than unmarried taxpayers and provisions that treated the married couple and the unmarried taxpayer in the same way. All were to the advantage of the spouses and were tax incentives that encouraged marriage in France.

There were, however, only three instances identified by Cronjé in 1985, where the tax legislation was to the detriment of marriage and this included a tax credit given to taxpayers with a coefficient of 1, that is unmarried or divorced persons and widows and widowers without dependants, a credit not available to married couples. A taxpayer with a coefficient of 1,5 was also entitled to a tax credit, but a lower one than the taxpayer with a coefficient of 1, and an unmarried person with a taxable income lower than a certain amount could claim a deduction for each child younger than three years (Cronjé 1985:119-120).

France considered the family and not the individual or married couple as the tax unit and solved the problem of higher marginal rates by using low rates and multiplying the taxation payable by the number of members in that family. In France the economic unit was considered to be the tax unit and as such no, or very few, horizontal equity problems in this respect occurred. In South Africa, however, this system would impact even further on the privacy and independence of

the married woman and would not be acceptable. It should be noted, however, that provision was made in France for single breadwinners and one-breadwinner families.

3.3.5 CANADA

In Canada the individual was the tax unit, but this drew a lot of criticism, mostly from single individuals as they felt that married couples enjoyed an advantage from the system, as the husband could receive additional allowances for a non-working or dependent wife.

3.3.5.1 History

During 1867, the parliament of Canada obtained the right to levy taxes. Income tax was, however, only levied for the first time in 1917. Until 1941, all the provinces and the Central Government had the right to levy taxes. From 1948 a number of income tax acts were promulgated and amended and finally replaced in 1971 by a new income tax act. (Cronjé 1985:125)

From 1962 until presentation of their report in 1967, the Carter Commission considered the tax system and especially the unit of tax for individuals. They recommended that the family should be the unit of taxation but that either of the spouses must be able to choose to hand in a separate assessment and be separately taxed. (Cronjé 1985:126-131)

There was a lot of criticism and the Government released a White Paper comprising suggestions for changing the tax system. They felt that the suggestion that the family must be the tax unit was tantamount to a tax on marriage (Cronjé 1985:133). According to the changes brought about in 1971, the individual was the tax unit in Canada, but if one spouse had no or very little income, then the other spouse could

consider her or him as a dependant. The earner was then the only taxpayer. The personal income tax system in Canada has been indexed for inflation since 1974. (Cronjé 1985:134)

3.3.5.2 Current practice

An individual living in Canada was taxed on his or her income (Ernst & Young 1991:63). Personal tax credits included a basic personal credit (\$1 068 for 1991) and credits for dependants, age, disability and educational and tuition fees (Ernst & Young 1991:67). Cronjé (1985:135-139) listed the provisions that took into account the fact that the taxpayer was married and these ranged from an additional deduction for a dependent spouse, to a number of deductions and allowances that could be transferred from the one spouse, who could not use the entire benefit, to the other spouse. Both husband and wife could deduct a certain amount saved for a house from tax, whereas the single taxpayer received the deduction once only.

A deduction allowed to the working married woman only, was the deduction of the expenses for having her children taken care of while she was working. This deduction was limited per child and per the number of children. It was, however, allowed to the husband if his wife was incapable of looking after the children if she was physically or mentally incapacitated, or in hospital, an institution or jail. (Cronjé 1985:139) A taxpayer could claim a deduction from income for dependent children - the age limits were more or less the same as those used in South Africa until 1995 (Cronjé 1985:141). Since 1980 a taxpayer was also allowed to deduct income paid to a spouse as remuneration (Cronjé 1985:142). The changes to the South African Income Tax Act (section 7(2)) over the last few years have echoed this change.

Separate taxation was the rule in Canada, but with allowances made for the married couple and especially the married working woman, the problems encountered with one-breadwinner families were reduced and the working married woman was also treated fairly by the tax system.

3.3.6 AUSTRALIA

3.3.6.1 History

The different states in Australia formed a Commonwealth in 1901. The Commonwealth first levied taxes on income received in 1915. The individual has always been the tax unit, but it was only in 1941 that a uniform tax was levied in all the states. From 1942 to 1950 personal deductions were not allowed and during 1959 a tax committee was appointed to investigate certain aspects of the tax system. It made suggestions regarding tax deductions for age and this was accepted in 1964-65. (Cronjé 1985:148-149)

In 1972 a committee was appointed to investigate the entire Australian tax system and it tabled its final report in 1975. The system of separate taxation was widely criticised and the committee felt that individuals should have the choice to be taxed as a married couple or separately, but these recommendations were not accepted by the government and the individual remained the tax unit in Australia. (Cronjé 1985:158)

3.3.6.2 Current practice

Although spouses were taxed separately at the same rates as single taxpayers, there was an exception regarding the dependent spouse who had a separate net income of less than A\$282. The taxpaying spouse could claim a tax rebate up to A\$1 296. (Ernst & Young 1991:11) This was the only concession for a married couple and alleviated, to a certain extent, the unjust treatment of one-breadwinner families.

The tax rates for individuals were decreased in 1993 for taxable incomes up to A\$50 000 and are to be decreased still further until 1996 (Country survey 1993:39). The dependent spouse rebate was granted for couples with or without children (A\$1 412 in 1993) and was dependent on separate net income. This rebate was phased out from

A\$75 000 for families with dependent children and from A\$50 000 for families without dependent children (Dependent spouse rebate 1991:558). As from 29 September 1994 this rebate has been abolished and replaced by a "Home Child Care" allowance (Richards 1993:56). This allowance was paid fortnightly in cash directly to the spouse at home caring for the children. The allowance was approximately A\$150 per annum more than the current maximum dependent spouse rebate (Legislation 1994:25). This meant that, although the breadwinner received no tax relief for the dependent spouse, cash benefits were regularly received as compensation for the dependent spouse not working but raising children. This might well be an option in a country such as South Africa where poverty leads to problems and child care could be neglected.

Payments made by an employer on behalf of a parent for work-based child care would also be tax deductible within certain limits (Work based child care 1992:20 and FBT child care exemption 1992:[304]).

3.3.7 CERTAIN OTHER WESTERN COUNTRIES

3.3.7.1 The Scandinavian countries

Denmark

Since 1970 the married woman was considered to form a separate tax unit in respect of her income from an independent business, personal wages, salaries, pension and similar income. Since 1982 income from capital was also taxed in the hands of the person who earned it but at a rate applied as if the income from investments was added to the income of the spouse earning the most from labour. (Cronjé 1985:25) This meant that there was no need for income splitting.

In 1991 income tax was levied at a flat rate of approximately 50 per cent on taxable income, which included a flat rate local tax ranging

between 22 per cent and 31 per cent, depending on the municipality of residence. An additional tax was levied at a flat rate of 12 per cent on personal income in excess of DKK227 200. If the sum of personal income and positive net capital income exceeded DKK155 100 (DKK310 200 for a married couple), an additional tax was levied at a flat rate of 6 per cent on the excess.

There were two personal deductions, namely a statutory deduction of 3 per cent of personal income, with a maximum of DKK3 700, and a standard personal deduction with a tax value of approximately DKK13 500. The municipality of residence levied approximately half of the 50 per cent tax levied on the taxpayer. (Ernst & Young 1991:104,105)

Major tax reforms have been enacted since 1991 but did not impact on horizontal equity. There were no provision for one-breadwinner families in Denmark and this is similar to the new local trend.

Finland

Married couples were taxed on their joint income until 1975, then an income-splitting system was applied and finally, since 1976, spouses paid tax separately on all earned income but income from capital was still taxed jointly (Cronjé 1985:24). Individuals were now taxed on their own investment income. Interest income on bank deposits and bonds were subject to a 10 per cent withholding tax, whereas dividends paid to residents were subject to normal income tax (Ernst & Young 1991:135).

Income tax was payable to the national government, the municipality and to the church (if the taxpayer was a member). Income included personal income as well as capital gains. There were only six tax brackets, from 7 per cent to 39 per cent, and municipal taxes varied between 14 per cent and 18 per cent of taxable net income. (Ernst & Young 1991:132)

Deductions and allowances, including payments to labour unions, medical expenses, pension funds and even travel expenses between home and work in certain instances, were deductible. The interest paid on loans to acquire a family home were deductible within certain maximum and minimum limits. In a family, a maximum deduction for interest was FIM24 000, but for a subsequent family house the tax limitation on annual deductible interest was FIM12 000, if only one spouse was entitled to the deduction, and FIM9 000 if both the spouses were entitled to the deduction. (Ernst & Young 1991:133)

There was also an allowance for persons buying their first apartment or house but they had to own at least 50 per cent of a dwelling before they could deduct the allowance. An additional deduction was granted to taxpayers with one child and the deduction doubled if they had two or more children. (Ernst & Young 1991:134) There was also an allowable deduction from dividends, interest and rental income limited to a maximum deduction of FIM20 000. A deduction of FIM13 200 was granted for a child between the ages of three and seven, provided the child was supported by the taxpayer. This was the only personal deduction allowable for purposes of the national taxation on income. All the other deductions were for purposes of the local taxation on income and were mainly for children and to protect lower income groups from paying too much tax. (Ernst & Young 1991:132-134)

Married couples in Finland were therefore taxed completely separately and no unfair advantages were given to either the unmarried or the married taxpaying individual, although one-breadwinner couples may have been treated less than fair.

Norway

During 1959, it became possible for the spouse with the lowest income to choose to be taxed as a single person, but the income from capital was still taxed jointly (Cronjé 1985:24).

In 1991 there were income-tax rates for single individuals, and married couples were assessed jointly on income from work, capital and business. A common tax was levied on taxable income for national income tax purposes at a rate of 5,5 per cent reduced by NOK20 700 for unmarried individuals and NOK41 400 for married couples (Ernst & Young 1991:343) so that there was no discrimination whether the couple was assessed jointly or as single individuals.

If the gross income was more than NOK207 000 (single individuals) or NOK249 000 (for married couples), excluding interest and dividend income, an additional "top" tax of 9,5 per cent was payable. Although the limit for the married couple was not double that of the single individual, it was still more than the single amount. An advantage for the single breadwinner couple was that they were allowed NOK42 000 more income before the additional tax was levied. There was also a municipal income tax at a rate of 21 per cent on net income, excluding dividends, after deduction of a standard amount of NOK20 700 for unmarried individuals and NOK41 400 for married couples. (Ernst & Young 1991:343)

Payments made for pension plans, alimony and interest on debts were allowed as deductions under certain circumstances. The personal allowances comprised a standard minimum allowance of 15 per cent of gross remuneration, with a maximum of NOK10 000 and a minimum of NOK3 200 (Ernst & Young 1991:343).

The tax system in Norway provided both separate taxation (with its advantages for the working married woman) and tax acknowledgement of the one-breadwinner family. This resulted in more horizontal equity than in South Africa.

Sweden

The system of joint taxation in Sweden was replaced by compulsory separate taxation in 1970 and in 1976 income from business and farming was also taxed separately (Cronjé 1985:25). Income was taxed at

local and national level and the tax rates depended on the area as well as the income earned. Dividend income, net interest income and income from rental activities were taxed as income from capital at a flat rate of 30 per cent, if not earned in connection with the operation of a business (in which case it was taxed at the rates applicable to the business). (Ernst & Young 1991:439-441)

Deductions were allowed for interest expense, expenses for travel between home and work, payments for personal pension insurance, a general deduction and alimony (Ernst & Young 1991:440). No specific provisions were made for one-breadwinner families.

3.3.7.2 The Netherlands

From 1973, after 40 years of change in the income tax acts of the Netherlands, a married woman was herself taxable on her earned income. The tax rates were changed to a sliding scale and the same tariff applied to every taxpayer for every portion of his or her income. Deductions from income were allowed: the one for a married man was considerably higher than the one for a married woman and only the husband could claim a deduction for children. A single individual was allowed a deduction between that of the married man and married woman. Since 1984, unmarried persons living together were taxed in the same way as a married couple and since 1985 the unused portion of allowances was transferable between couples. (Cronjé 1985:19)

Personal deductions comprised a single-person supplement (of a certain age and with a limit on the taxable income), sole-earner supplement, single-parent supplement and an additional single-parent allowance (Ernst & Young 1991:313).

Separate taxation for married couples was in operation in the Netherlands but with the advantage of the sole-earner supplement and various other deductions available to soften the blow on one-breadwinner families.

3.3.7.3 Greece

Although spouses could be taxed separately in Greece, provision was made for one-breadwinner couples in the form of an increased personal allowance (Ernst & Young 1991:170).

In Greece, social insurance contributions, medical expenses, alimony paid, life insurance premiums, donations to the State and certain other organisations, and certain household and personal expenses such as for clothes, furniture, rental of residence were all deductible. (Ernst & Young 1991:170)

There were also a number of personal allowances, namely for single taxpayers, for a married taxpayer if only one spouse had taxable income, for every child up to the fifth child and even for subsequent children and fifty per cent of employment income up to a maximum amount (Ernst & Young 1991:170).

Withholding taxes applied to dividends, but interest income was grouped with a taxpayer's other income and taxed at the regular rates except for interest on bank deposits which was taxed at 10 per cent (Ernst & Young 1991:171). There was provision made for working, married women and for the one-breadwinner family.

3.3.7.4 Ireland

In the Republic of Ireland the individual was the tax unit, but a married couple could choose to be jointly taxed and the tax was then calculated on half the total income and multiplied by two. It was advantageous to choose to be jointly taxed if each member of the couple did not earn more or less the same income. (Cronjé 1985:26) The Irish Government reviewed its four-year programme in 1991 and positioned tax reform within certain parameters, which included curtailment of a range of exemptions, allowances and concessionary tax rates on a phased basis and widening of the standard band of tax and

increasing the basic personal allowances in the "course of the next two budgets" (Irish taxation developments 1991:32).

All income from employment and non-cash benefits which were normally taxed at the cost incurred by an employer, were taxed, although certain benefits, for example a company car and housing loans were valued according to specific provisions. There were two sets of rates: one for single or widowed individuals (where the income bands applicable to the rates were exactly half the rates applicable to married couples), and the rates for a married couple jointly assessed. (Ernst & Young 1991:216-217)

Investment income was taxed and dividend tax depended on the amount of tax already paid by the Irish company, which was credited to the benefit of the individual. Certain Irish dividends were exempt and interest on most bank and building society deposits had a withholding tax of 30 per cent. (Ernst & Young 1991:219)

There was little scope for claiming expenses against taxable income, but there were a number of allowances where the 'married couple jointly assessed' normally had an allowance that was double that of a single person. There were also allowances for widowed persons. These were the same as the married allowance in the year of bereavement and slightly more than the allowance for a single person in subsequent years. There were no allowances for children, but 80 per cent of mortgage interest could be claimed, up to a certain maximum (the married couple maximum was double that for a single person). Allowances for medical insurance, pension contributions, life insurance and business expansion schemes or research were also made from income (Ernst & Young 1991:218). Although the Irish taxation legislation provided for the working married woman, no real provision was made for one-breadwinner families or taxpayers with other dependants and, as such, this system would not enhance horizontal equity in South Africa.

3.4 DEVELOPMENTS IN CERTAIN EASTERN COUNTRIES

Although this study did not concern itself with horizontal equity in eastern countries, it was interesting to note the tax treatment of individuals in certain of those countries.

In Asia the treatment differs depending on the country. For individuals living in Brunei there was no tax. Although the legislation provided for the imposition of individual tax it was not introduced and only companies were taxed. In the Phillipines exemptions were given to improve equity and these were determined on the basis of status and number of dependants. Thailand had personal deductions for the taxpayer, the spouse and children and there was separate tax for the wife's income earned from employment. Indonesia had additional allowances for a married taxpayer, and an allowance equal to the one for an individual for the wife working independently from her husband and family and for each dependant. (Rolt 1986:1-122)

In the former USSR a certain percentage was allowed as a deduction from taxable income if the taxpayer supported more than a specified number of dependants (Ernst & Young 1991:504). In Poland each member of the married couple was taxed on half of their joint income and there was no relief relating to a dependant spouse or children (Chrusciak 1992:24).

Even former Eastern Block countries provided some measure of relief for both married women and one-breadwinner families.

3.5 CONCLUSION

In this chapter the history of income taxation of individuals in the more prominent Western Countries was reviewed from the first income

taxation systems introduced in the eighteenth century to the current systems.

While there were three basic systems, there were many variations depending on the country under review. Variations such as complete and compulsory separate taxation, often with transferable allowances between spouses (for example, the United Kingdom, Canada, Australia, Denmark, Finland, Sweden, the Netherlands and Greece); allowance for the married couple to choose whether to be taxed as a couple or separately (the United States of America, Norway and the Republic of Ireland); adding the married couple's incomes together and taxing each on half of the income, in other words splitting the total income for income tax purposes (for example Western Germany and France). In France a family was taxed together on the coefficient system. Individual investment incomes were sometimes considered to be the income of the highest earning spouse.

Most of the countries reviewed followed the trend of taxing married couples as separate individuals, while previously the couple was taxed as a unit, or they had the choice to be taxed separately or jointly. Almost everywhere there was some kind of provision for single breadwinners ranging from transferable allowances (United Kingdom) to additional personal exemptions and even separate rate schedules (United States of America).

Often these allowances or rebates were phased out as the income increased. This was not horizontally equitable as, where both spouses worked and earned income, they both received certain tax exemptions that were only allowed once to the one-breadwinner taxpayer.

What was clear from this chapter, however, was that the tax systems of most countries attempted to provide a solution to the one-breadwinner dilemma and compensation, in one way or another, for child care (either for the working married woman or a cash benefit to the wife caring for her children at home). These solutions will form the basis for certain of the recommendations in Chapter 7.

CHAPTER FOUR

THE TAXATION OF INDIVIDUALS IN SOUTH AFRICA

4.1 INTRODUCTION

4.2 HISTORICAL PERSPECTIVE PRIOR TO 1984

4.2.1 FIRST TAX LAWS AND CHANGES

4.2.2 THE STEYN COMMITTEE AND THE DIEDERICHS COMMISSION

4.2.3 CHANGES FROM 1950 TO 1965

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- 4.10 TAXATION LEGISLATION AMENDMENTS FOR THE 1992 YEAR OF ASSESSMENT
- 4.11 TAXATION LEGISLATION AMENDMENTS FOR THE 1993 TO THE 1995 YEARS OF ASSESSMENT
- 4.12 CONCLUSION

4.1 INTRODUCTION

In the previous chapter the history of the taxation of individuals in certain western countries was reviewed. The specific provisions relating to the current taxation of married couples and individuals in certain western countries were considered. This provided a broad overview of the taxation of individuals in a historical and international context and of the ways in which tax legislators in these countries attempted to address the problem of horizontal equity in relation to individual taxpayers.

The purpose of this chapter is to put the taxation of individuals in South Africa into perspective. The history of income taxation from its introduction in 1916 and the changes in taxation legislation, as it affected the individual, are given. As the taxation legislation on individuals from the 1985 to the 1994/1995 years of assessment are discussed and evaluated in Chapter 6, only amendments relevant to this study are discussed in this chapter.

Although changes in taxation legislation have occurred since its inception, it was only during the last twenty to twenty-five years that far-reaching changes were made to the way in which the married couple was taxed. Changes such as the married woman's earnings allowance and, earlier, the rating formula, was applied to the married couple's earnings. The tax unit (being either a single individual or a married couple) was changed completely over the years with the gradual phasing-in of the "married woman" as another tax unit. The "married person" and the "married woman" were taxed separately and not as part of the married couple, except under certain circumstances. The 1995 amendments did away with any discrimination and only one tax unit and one set of rates would apply from the 1996 year of assessment (South Africa 1995).

4.2 HISTORICAL PERSPECTIVE PRIOR TO 1984

4.2.1 FIRST TAX LAWS AND CHANGES

The first form of taxation in South Africa was mining tax under Act 6 of 1910. Income tax for individuals was introduced for the first time in 1916 (Act 35 of 1916) when income tax was levied on annual incomes of more than £300. The £20 deduction for children (section 3(d)) and a £25 deduction as "life or accident or sickness insurance premium on his own or his wife's life" (section 3(a)) was the only indication that the taxpayer was considered to be a married male and that the wife was taxed together with her husband. No other discriminatory statements referring to the wife or women were included in the Act. There were also no differential or marginal rates or any additional charges made which referred to a spouse.

In 1916, women, especially married women, did not really form part of the work force. They were perceived as housewives and mothers who did not work outside of the home.

In 1917 for the first time it was specifically stated that the wife was taxed together with her husband. Act 41 of 1917 deemed a wife's income to be her husband's until the death or insolvency of her husband.

The income of a woman married with or without community of property and not separated from her husband under a judicial order or written agreement shall, for the purposes of this Act, be deemed to be income accrued to her husband and shall be included by him in returns of income required to be rendered by him under this Act.

Provided that in the event of the death or insolvency of the husband during any year in respect of which such income is chargeable, the income of the wife for the period elapsing between the date of such death or insolvency and the last day of the year of assessment shall be taxable as the separate income of such wife.

(South Africa 1917:Section 66)

In 1925 this was further refined by the insertion of section 66(3) which allowed a husband to recoup tax paid on behalf of his wife.

Any tax due and payable by any person married without community of property and not separated from his wife under a judicial order or written agreement may be recovered from the assets of his wife in so far as the tax is payable in respect of income of his wife deemed to be his under the provision of sub-section (2) of section nine of this act.

(South Africa 1925:Section 66(3))

This Act (South Africa 1925) also made provision for separate taxation in the form of separate returns: Section 9(2) deemed (as

did Act 41 of 1917) the income to be the husband's and section 39 provided that if "... either husband or wife make written application therefor to the Commissioner or the Commissioner considers it desirable, returns of income may be required to be rendered by any such husband or wife separately" (South Africa 1925:Section 9(2)). Section 46(6) stated that separate returns would be separately assessed, however, "the total tax payable in respect of the separate assessments shall not be less than the total amount which would have been payable by the husband alone if the incomes of both husband and wife had been assessed as income of the husband alone" (South Africa 1925). The returns had to be assessed at the same time and with reference to each other.

Act 31 of 1941 repealed all previous Acts but retained the same provisions regarding married women and the taxation of married couples (South Africa 1941).

4.2.2 THE STEYN COMMITTEE AND THE DIEDERICH'S COMMISSION

The Steyn Committee (South Africa 1951) was appointed in 1949 to investigate the Income Tax Act of the Union of South Africa and submitted its first report in 1951. In Part IV of Chapter 3 they discussed the taxation of the income of married women. They noted that only one of all the representations received had considered the tax burden of married persons to be heavier than the burden of unmarried persons and had requested separate taxation for married couples. The Committee did not want to concede that the system that was in force and applied since taxation was first imposed, was unfair and they were not in favour of a change. (South Africa 1951:par.60)

They considered that the advantages given to married taxpayers according to the system in operation at the time, in the form of higher basic deductions and a lower scale of taxation, did much to neutralize the disadvantages of adding together the incomes of the husband and wife (South Africa 1951:par.61). They also mentioned the "economic unit" as justification for the tax unit.

The joint income of husband and wife comprises the means available for the economic unit of which the family is composed and we consider it fair and reasonable that taxation should be based on the joint income. The system is above all simple and can be more easily administered than a system of separate returns and assessments, especially in respect of the fitting relief for minor children from the marriage. (Translated)

(South Africa 1951:par.61)

The Committee also referred to the dangers of income splitting and the fact that it was not possible to divide income under a system of joint taxation.

Reporting on the findings of the Steyn Committee, the Diederichs Commission agreed with the Steyn Committee regarding the taxation of the income of married women (South Africa 1976:13).

4.2.3 CHANGES FROM 1950 TO 1965

No significant changes occurred in the taxation of married couples and the tax schedules remained unchanged from 1941 to 1959. In 1960 the block rate system was introduced but the tax effect on the married couple, compared with individuals, remained basically the same. (Van der Spuy 1988:4)

The introduction of the concept of gross income made it necessary to define "marriage" and "married person". The Commissioner had to decide whether or not a couple would be considered to be "married" and divorced people were only considered to be "married" if the divorce occurred before March 1962 (South Africa 1962:Section 1(a) and 1(b)(i)(aa)).

Section 68 stipulated the following as regards the income of married women:

Provided that if either the husband or the wife makes written application therefor to the Commissioner or the Commissioner considers it desirable, returns of income may be required to be rendered by any such husband or wife separately.

(South Africa 1962:Section 68)

A concession was made which stated that a married woman whose taxable income did not exceed R600 would not be taxed - her income was exempted from tax. An unmarried person was only allowed the exemption up to a maximum of R500 (South Africa 1962:section 10(4)(a)).

In 1964 separate rates were promulgated for married persons and unmarried persons (South Africa 1964:section 1).

4.2.4 1965: THE RATING AMOUNT

In 1965 the first major change in the way in which the taxation of married couples was calculated was promulgated. The married couple's income was taxed as prescribed in section 5 as if the smaller of the incomes was a lump sum. The tax payable was then calculated according to the following rating formula:

Where it is proved to the satisfaction of the Secretary that a portion ... of the taxable income of any taxpayer in respect of any period of assessment commencing on or after the first day of March, 1965, is attributable to the inclusion in the taxpayer's income of the income of his wife and each spouse's portion of such taxable income, ... is not less than one hundred rand, the normal tax chargeable in respect of such taxable income shall ... be an amount which bears to such taxable income the same ratio as the amount of normal tax which, applying the relevant rate, would be chargeable in respect of a taxable income equal to the rating amount ... bears to such rating amount: Provided that in no case shall the amount of normal tax chargeable be less than the amount of normal tax which would be chargeable at the relevant rate ... in respect of the first rand of taxable income, and nothing in this section contained shall be construed as relieving any person from liability for taxation under this Act upon any portion of his taxable income ...

(South Africa 1965:section 5(3)(a))

The rating amount was calculated according to section 5(4) and was deemed to be the aggregate of

- (a) [t]he greater of the sums remaining after deducting from the husband's and wife's portions ... of the taxable income of the taxpayer for the period of assessment the respective amounts (if any) allowed to be deducted in terms of sub-section (7) [which referred to lump sums from annuities, pension or provident funds, sugar cane or plantation farming], or if such sums are equal in value, either such sum; and
- (b) an amount equal to one-half of the lesser of the sums referred to in paragraph (a), or if such sums are equal in value, one-half of either such sum; and ...
- (c) an amount equal to twice the amount (if any) by which the taxable income of the taxpayer exceeds eight thousand rand:

Provided that where the said aggregate exceeds the taxable income of the taxpayer the rating amount shall be deemed to be an amount equal to such taxable income.

(South Africa 1965:Section 5(4)).

This had the effect of taxing a married couple at a lower rate applicable to the calculated rating income on their aggregate incomes, provided that the "rating income" was less than the total income. This would only be the case up to a certain income and would depend on the two separate incomes of husband and wife.

The above can be illustrated as follows in a simplified case where both husband and wife earned only a salary:

<u>SALARY</u>	<u>CASE 1</u>	<u>CASE 2</u>	<u>CASE 3</u>	<u>CASE 4</u>	<u>CASE 5</u>
	R	R	R	R	R
Husband	6 000	8 000	4 000	6 000	5 000
Wife	<u>5 000</u>	<u>8 000</u>	<u>6 000</u>	<u>2 000</u>	<u>3 000</u>
Taxable income	<u>11 000</u>	<u>16 000</u>	<u>10 000</u>	<u>8 000</u>	<u>8 000</u>

The rating amount was calculated as follows: The aggregate of

- (a) The greater of
the sums re-
maining

6 000	8 000	6 000	6 000	5 000
-------	-------	-------	-------	-------

- (b) an amount equal
to half of the
lesser of

the sums...	(1/2 of R5 000)	(1/2 of R8 000)	(1/2 of R4 000)	(1/2 of R2 000)	(1/2 of R3 000)
	=R2 500	=R4 000	=R2 000	=R1 000	=R1 500

- (c) an amount =
twice the amount
whereby taxable

income exceeded R8 000

(R11 000	(R16 000	(R10 000	(R8 000	(R8 000
<u>- 8 000</u>	<u>-8 000</u>	<u>-8 000</u>	<u>-8 000</u>	<u>-8 000</u>
<u>3 000</u>	<u>8 000</u>	<u>2 000</u>	<u>nil</u>	<u>nil</u>

twice the above: R6 000 R16 000 R4 000 - -

The rating amount was R14 500 R28 000 R12 000 R7 000 R6 500

It was clear from the above calculations that the rating amount would only have been advantageous when the total taxable income of the couple was less than a certain amount and the actual rate used depended largely on the way in which the couple's incomes differed in relation to each other to make up the whole.

In 1966 this section was amended to specify how the amount should be calculated if the spouses were married in community of property (South Africa 1966:section 5(a)(iii) and section 7).

In 1967 the "one-half" in section 5(4)(b) was changed to 2/5ths which afforded a certain amount of relief for the taxpayer (South Africa 1967:section 5(4)(b)).

In 1968 the provision was amended to read as follows: "[If] the taxable income of the taxpayer for the period of assessment exceeded R3 000, an amount equal to 2/5ths of the sums referred to in paragraph (a); and

(c): an amount equal to the amount [previously twice the amount] (if any) by which the taxable income of the taxpayer exceeds eight thousand rand" (South Africa 1968:section 5(4)(b) and (c)). This provided relief for the higher income groups as the 'increase' of the amount to be added to the rating amount was now only two-fifths of the amount by which the person's taxable income exceeded R8 000, (if the lower of the two incomes exceeded R3 000) whereas previously it was twice the amount.

The 1967 and 1968 changes in legislation impacted as follows on the 1965 taxable incomes given above which meant a rating amount of:

<u>SALARY</u>	<u>CASE 1</u>	<u>CASE 2</u>	<u>CASE 3</u>	<u>CASE 4</u>	<u>CASE 5</u>
	R	R	R	R	R
Husband	6 000	8 000	4 000	6 000	5 000
Wife	<u>5 000</u>	<u>8 000</u>	<u>6 000</u>	<u>2 000</u>	<u>3 000</u>
Taxable income	<u>11 000</u>	<u>16 000</u>	<u>10 000</u>	<u>8 000</u>	<u>8 000</u>

1967:

(a) the greater of the sums	6 000	8 000	6 000	6 000	5 000
(b) 2/5ths of the lesser amount	2 000	3 200	1 600	800	1 200
(c) 2(taxable income - R8 000)	<u>6 000</u>	<u>16 000</u>	<u>4 000</u>	<u>nil</u>	<u>nil</u>
Rating amount of	<u>14 000</u>	<u>27 200</u>	<u>11 600</u>	<u>6 800</u>	<u>6 200</u>

1968

(a) same as above	6 000	8 000	6 000	6 000	5 000
(b) same as above	2 000	3 200	1 600	800	1 200
(c) taxable income - R8 000	<u>3 000</u>	<u>8 000</u>	<u>2 000</u>	<u>nil</u>	<u>nil</u>
Rating amount of	<u>11 000</u>	<u>19 200</u>	<u>9 600</u>	<u>6 800</u>	<u>6 200</u>

It was thus clear that even with the 1968 changes, cases 1 and 2 did not benefit from the rating amount. Even if the wife earned more and the husband less, this would not really have impacted because the "(c) taxable income minus R8 000" would have increased the rating amount.

In case (3) the rating amount was only advantageous from 1968 but for a total taxable income of R8 000 it was clearly a help from the start. From calculations done on a total taxable income of R9 000 it would only have been advantageous from 1967.

Changes over time improved the married couple's lot as the following comparison shows:

<u>Summary</u>	<u>CASE 1</u>	<u>CASE 2</u>	<u>CASE 3</u>	<u>CASE 4</u>	<u>CASE 5</u>
	R	R	R	R	R
Total taxable income	11 000	16 000	10 000	8 000	8 000
Rating amount for					
1965	14 500	28 000	12 000	7 000	6 500
1967	14 000	27 200	11 600	6 800	6 200
1968	11 000	19 200	9 600	6 800	6 200

The rating amount did not give the same advantages as separate taxation but with the lower tax rates applicable to married couples it would have provided considerable tax relief to them.

4.2.5 THE FRANSZEN COMMISSION REPORT

In Chapter II of its First Report, the Franszen Commission (South Africa 1969) paid special attention to the question of taxation of married couples where both earned income. They recommended the retention of the system of joint taxation but with the reservation that the first R500 of a married woman's earned income be exempted from tax (South Africa 1969:paragraph 130). This may well have been a significant allowance considering the salaries earned at the time.

Act No. 89 of 1969 curtailed the use of the rating amount for the calculation of taxation of married couples.

There shall, in the determination of the taxable income of any taxpayer in whose income there is under the

provisions of section 7(2) included any earnings of his wife, be allowed as a deduction from his income so much of the total amount of such earnings (whether consisting of the earnings of one wife or of more than one wife) as does not in the year of assessment exceed an amount of five hundred rand, less one rand for every ten rand by which the combined amount of the taxpayer for such year of assessment exceeds eight thousand rand: Provided that where the period of assessment is less than a full year the amount which shall be deducted under this subsection shall be limited to an amount which bears to five hundred rand the same ratio as the period assessed bears to one year, less one rand for every ten rand by which the combined amount of the taxpayer for such period exceeds an amount which bears to eight thousand rand the same ratio as the period assessed bears to one year.

(South Africa 1969:section 20A)

The Act further explained what was meant by the "combined amount of a taxpayer" and excluded the following income of the wife from the meaning of "earnings":

- (i) income derived from the letting of any property or the use of or the grant of permission to use any patent, design, trade mark or copyright or other property ... contemplated in the definition of 'trade' in section 1;
- (ii) income derived from any trade carried on by her in partnership or association with her husband or which is in any way connected with any trade carried on by her husband;
- (iii) any amount received by or accrued to such woman from her husband or any partnership of which... her husband was at the time of such receipt or accrual a member of any private company of which her husband was at such time a director or any private company of which she or her husband was at such time the sole or main shareholder or one of the principal shareholders.

(South Africa 1969:section 20A)

These would eventually become the provisions of the much discussed and disputed section 7(2) of the Income Tax Act, 1962 - a section aimed at the prevention of tax avoidance and specifically at the prevention of the splitting of the income between husband and wife.

In 1974 the limit was increased from R500 to R600 per annum (South Africa 1974:section 20A) and in 1975 to R750 per annum (South Africa 1975: section 20A). In 1977 the concept of earnings was redefined to include

... income derived from use of or grant of permission to use any patent, design, trade mark or copyright or other property of a similar nature contemplated in the definition of 'trade' in section 1 unless such income was derived by such woman in the course of any business, employment calling or occupation carried on by her [own underlining].

(South Africa 1977:section 20A(iA))

In 1979, Act 104 increased the limit to R900 and in 1980 it was further increased to R1 200 (South Africa 1980:section 20A). Two further increases occurred before 1984, namely in 1981 and 1982 to R1 400 and R1 600 respectively (South Africa 1981 & 1982:section 20A).

The earnings allowance was constantly adjusted, presumably to keep up with inflation, but the complaints about the system of joint taxation did not cease.

4.3 TAXATION LEGISLATION AMENDMENTS FOR THE 1985 YEAR OF ASSESSMENT

In 1984 the status quo changed very little from 1983: the tax tables, wife's earnings allowance and rebates remained the same. That is, earnings of up to R7 000 were taxed at 10 per cent rising

to a maximum of R12 220 plus 50 per cent of the amount in excess of R40 000 for married couples. The unmarried taxpayer paid a surcharge of 20 per cent on tax of taxable incomes up to R28 000 and 50 per cent of taxable income exceeding R28 000. The allowance in respect of the married woman's earnings amounted to R1 600.

Finance Week (Cover story 1984:631), in discussing the last budget presented by Minister Horwood, concentrated on the "mighty burden" being borne by personal taxpayers. According to the article, the Minister estimated that individual tax payments would yield R7,3bn in 1984/1985, well over double the level of 1981/1982.

It was also noted that individuals were funding a higher proportion of "an increasing quantum of government expenditure" (Cover Story 1984:632). In 1978/1979 total revenue was R10 billion of which individual taxpayers contributed only 23 per cent. For 1984-5 the comparative figures were R21,3 billion and 34 per cent. In 1978-9 combined individual and general sales tax payments - the latter being met mostly by individuals - were 31 per cent. The 1984-5 figure was 56 per cent. "The man in the street, who was funding a third of government expenditure five years ago, is now contributing well over half" (Cover Story 1984:631).

The 1984/1985 budget actually took an additional R2,7 billion from individuals as the yield from individual taxpayers rose by R1,5 billion; general sales tax at 7 per cent for the full year raised another R1,16 billion (Cover story 1984:632).

The Financial Mail concurred, although headed the article "Horwood's Budget - Sweet and sensible swansong" (1984:36), noting "... that individuals have been carrying a steadily rising proportion of the tax burden". They pointed out that revenue from non-mining companies had remained fairly static at about 20 per cent.

4.4 TAXATION LEGISLATION AMENDMENTS FOR THE 1986 YEAR OF ASSESSMENT:

The 1985-86 Budget, being Finance Minister Barend du Plessis' first budget, raised the surcharge on tax from 5 per cent to 7 per cent. The problem of bracket creep and the influence it had on the individual's contribution to the State coffers was again addressed.

Consider recent trends in [South Africa's] tax burden. As recently as 1979, the corporate share of income tax was about 63%, ie R3 283m compared to all income tax of R5 227m. According to estimates for the 1984-5 Budget, corporations would be paying only 38% of all income tax, or R4 503m out of a total of R11 768m. Clearly the process of inflation has, by catapulting an ever increasing number of taxpayers into higher brackets, severely increased the burden on individuals.

(Southey 1985:453-454)

Southey (1985:453) also referred to the United States where, under the Reagan Administration, the current trend was to reverse the tax burden from individuals to corporations: "Corporate tax share of US Federal revenue dropped from 19,5% in 1969 to 6,2% in 1983, but is expected to rise to around 8,5% in 1984". This represented a much lower percentage of tax paid by corporations in the United States out of total tax collected than even the one noted by Southey (1985:453) for 1984/1985 for South Africa. Various factors may have been responsible for this; one being that the proportion of earnings by corporations in the United States may have been markedly less than the proportion of earnings by individuals. This, however, did not fall within the scope of this research.

Although South Africans widely perceive themselves to be overtaxed, this may stem from the fact that taxation as a percentage of GDP rose from 19,4% in 1975 to 24,4% in 1985. But international tax ratio comparisons show SA in a not

unfavourable light. Central government tax revenue as a percentage of GDP in 1983 was 22,3%, as against 27,2% in the US, 37,7% in the UK, 43,1% in France and 50,4% in Sweden. The SA ratio is lower than the world average, but on a par with other non-oil producing developing countries.

(Greenblo 1987:231)

Another problem, according to Southey (1985:453), was the number of tax brackets. He compared the number of tax brackets in South Africa, the United States and Great Britain and noted that

[I]n the US the present schedule consists of 14 income brackets for joint returns, with tax rates ranging from 11% to 50%; in the UK there are only six tax brackets, with a 30% rate applying in the £nil to £14 600 bracket rising to 60% above £36 000. In SA there are no fewer than 22 tax brackets, with a top marginal rate of 50%.

As regards the 1985 tax legislation amendments as they affected individuals, the maximum marginal rate for married taxpayers was raised from R40 000 to R60 000 and for unmarried taxpayers from R28 000 to R42 000. Finance Week (Cover Story 1985:573) noted that "only those in the plus-R80 000 bracket will be hit with marginally higher taxes although this will ... increase as the fringe benefits phase-in runs its course".

According to Finance Week (Cover Story 1985:580), liability for the surcharge started at an income of R8 920 for single people and R11 925 for married people with two children. In the 60-65 age group, single people started paying tax at R9 670 and married people with no children, at R11 425.

The 1985 tax legislation amendments were important as they introduced separate rates for unmarried taxpayers. There were thus two sets of rates, one for the married couple and one for the

unmarried taxpayer. No longer were the married tax rates increased by a certain percentage for the unmarried person's taxes.

4.5 TAXATION LEGISLATION AMENDMENTS FOR THE 1987 YEAR OF ASSESSMENT

The 1986 budget reduced income tax rates, allowed married working women a higher portion of their earnings tax-free and, allowed investors, more tax-free interest and dividends. With the tax "cuts", it was expected that individuals would pay less in the 1986-87 fiscal year but pointed out that "revenue estimates show that the personal tax haul will increase by 32% to R11,8 billion in 1986-87. And the [general sales tax] haul is estimated to increase 14% to R9,5 billion." (The Budget 1986:36) This meant that personal taxpayers would pay R4 billion more than in 1985-86, "purely because of inflation" (The Budget 1986:36). The tax cuts were "largely illusory" and "new provisional tax rules harm taxpayers to the extent that they must pay three, instead of two provisional payments ... this cannot be underestimated because salaried taxpayers with investment income greater than R1 000 are automatically classified as provisional taxpayers" (The Budget 1986:36).

The inflation rate of 20 per cent was also mentioned and it was noted that "if this could be forgotten, then the Budget granted significant relief to personal taxpayers" (The Budget 1986:36).

The tax rates were lowered by replacing the 7 per cent surcharge with a 5 per cent discount on tax payable after deduction of rebates. This had the effect of lowering the top marginal rate - which (at R60 000 for married and R42 000 for unmarried taxpayers) fell from 53,5 per cent to 47,5 per cent. The 5 per cent discount applied to all salaried taxpayers except married women and PAYE deductions were adjusted to provide for this (The Budget 1986:36).

Married women would be taxed according to a new set of PAYE tables to be published. Relief to the burden of joint taxation was the new tax-free status of 20 per cent of the wife's income - with a minimum deduction of R1 800 (The Budget 1986:36).

The concession for working wives was considered to be

... the most imaginative step ... To exempt from tax R1 800 or 20% of a wife's net earnings (whichever is the greater) - with effect already for the 1986 tax year - is a major advance, as the revenue loss of R116m for 1986-1987 shows. It is particularly valuable at upper-income levels, and could do much to attract skilled women back into the labour market.

(Preece 1986:611)

The "20% rule" as originally referred to in the United States of America (refer Chapter 3) was applied to South African tax legislation before 1986 but in another guise - when the same tax rates were applied to the married couple and the unmarried individual, the 20 per cent was a surcharge to the unmarried person's taxes. Now 20 per cent of the wife's earnings would be tax exempt. In the United States of America they considered the living costs to be 20 per cent more for two people living together than for one person and therefore unmarried tax rates should be 20 per cent higher. This 20 per cent reduction did, of course, not have the same effect as the previous surcharge, as it clearly depended on how much the wife earned.

The married woman's earnings allowance allowed a wife to deduct 20 per cent of her earnings or R1 800 whichever was the greater, but was limited to her taxable income so that if she earned R10 000, 20 per cent (or R2 000) had tax-free status; but if she earned only R3 000 (of which 20 per cent is R600) R1 800 had tax-free status and if she earned R1 000 only the R1 000 was tax free (South Africa 1986 and Cover story 1986:618).

The fringe benefits taxation, introduced the previous year, added to the individual's tax burden but resulted in a more equitable dispensation as the person who was paid in cash and the one who enjoyed the use of a motor vehicle were both taxed on the fruit of their labours.

This led to a horizontally more equitable dispensation and although "Mr Citizen" was better off in 1984, all citizens were better off or on a "more equitable basis" as the horizontal inequity concerning fringe benefits was removed.

This was the first year that a proportion of the married woman's taxable income was exempt from tax and not just a discrete amount. This did in some way make up for the high marginal rates at which her income was taxed.

4.6 TAXATION LEGISLATION AMENDMENTS FOR THE 1988 YEAR OF ASSESSMENT:

On three occasions during 1987, taxation and tax related matters occupied the minds and media of South Africa. Firstly, the so-called mini-budget was presented in March; secondly, another budget was presented in June and, thirdly, the Margo Report and Government White Paper were published in August.

The only changes made were to personal tax: the maximum marginal tax rate reduced from 47,5 per cent to 45 per cent, (South Africa 1987:section 1) and interest earnings exemptions increased from R500 to R1 000 (South Africa 1987:section 9). These changes were already made public in March 1987 but were only promulgated in June 1987.

4.7 TAXATION LEGISLATION AMENDMENTS FOR THE 1989 YEAR OF ASSESSMENT

The period after publication of the Margo Report and Government White Paper saw drastic changes to the South African income tax legislation as it pertained to individuals. These changes will be discussed in the order that they occurred annually. A comparison of the legislation for the different years for purposes of horizontal equity, will be made in Chapter 6.

The Minister of Finance made many references to the Margo Report in his 1988 Budget Speech delivered on 16 March 1988, in general noting the timing of the implementation of some of the reforms.

Some of the proposals are being implemented already via today's Budget, while others will first be implemented in the 1989/90 year. Many of the proposals are far-reaching in their nature and cannot be applied without further ado but must first be thoroughly aired with the private sector. Further consultations will be held immediately with representatives of the private sector, and it is hoped that the remaining proposals accepted by Government, will be implemented in the 1989/90 financial year.

(South African Institute of Taxation 1988:5)

The Minister of Finance noted that although the Government could not accept all the recommendations, and in some cases could accept them only after "certain amendments, the broad guidelines and principles proposed by the Commission are fully endorsed" (South African Institute of Taxation 1988:5).

He went on to say that

[T]he Commission's recommendation for the separate taxation of spouses cannot be accepted. The splitting of married couples for tax purposes is a very costly process and

simply cannot be afforded unless the Government can find an acceptable alternative source of revenue - something that is not possible at present.

(South African Institute of Taxation 1988:5)

He noted, however, that a partial separate taxation of spouses would be introduced, allied to the final deduction system (PAYE) by the introduction of a "system of standard income tax on employees (SITE) and other amendments to the Income Tax Act" (1988:6). So 1988, despite protestations to the contrary, saw the beginning of a gradual move towards a type of "separate taxation".

The Financial Mail pointed out that, although tax reductions of R1,3 billion were made, virtually all for individuals, individuals still contributed far more than the corporate sector and noted that increases of R944 million were to be raised from individuals while only R209 million was to be raised from the corporate sector (The Budget 1988:41).

The main changes as far as individuals were concerned were the introduction of SITE (standard income tax on employees), changes in rates and rebates, a clamp-down on deductible medical expenses and introduction of the joint assessment allowance.

A new table of rates was applicable in terms of which the lowest band of income (unmarried R10 000, married R12 000) would be taxed at a rate of 14 per cent (1988: 15 per cent) and the maximum rate of 45 per cent (1988: 45 per cent) applied to taxable income in excess of R54 000 (1988: R42 000) in the case of unmarried persons and R80 000 (1988: R60 000) in the case of married persons (South Africa 1988:Section 1).

The primary rebate for married taxpayers was increased to R1 100 from R920 and to R750 from R650 for other taxpayers (South Africa 1988:Section 4). The definition of a married person was also changed to include

[A]ny person who ... [is] entitled to any rebate in respect of a child under section 6(3)(a) or any person who is in respect of such period entitled to any rebate under section 6(3)(a) in respect of a child who is proved to the satisfaction of the Commissioner to have been maintained by him during such period wholly or mainly from his own resources derived otherwise than by way of alimony or maintenance received from the other parent of such child, and who is not a child in respect of whose maintenance his taxable income has been reduced in terms of section 21.

(South Africa 1988:Section 2)

This meant that any parent supporting a child could claim the child rebate and then be taxed as married at the rates for married taxpayers. An unmarried parent supporting a child could then claim to be taxed as married. A married woman was specifically precluded from claiming this rebate (Section 6).

Other concessions were also made to married women, but, as pointed out by Finance Week "[t]rue, the concessions for married working women are substantial but they won't come properly into effect until next year" (Cover story 1988:2). The reason for this was that SITE was only determined at the end of the year of assessment although PAYE was still deducted monthly.

This was not separate taxation as envisaged in petitions to the Margo Commission as the wife's earnings above R20 000, or, in conjunction with her husband or from investments or a business, were still added to the husband's taxable income. The married woman was also not allowed the same deductions as unmarried individuals or her husband.

Where she [the married woman] pays PAYE in addition to SITE, her entire remuneration will be taxed in her husband's hands. [SITE is still payable on the first R20 000 and this will then be deducted from total tax payable by the husband]. Where a married woman's income

exceeds R20 000, it will - subject to the existing 22,5% concession - be added to her husband's income and taxed at joint marginal rates. The overall burden will be considerably higher than had she fallen under SITE. If a married woman earning less than R20 000 a year also earns, say, interest, it will be taxed at her husband's marginal rate. In this case, of course, shortfalls become payable - but there is some phasing-in relief. An additional deduction (over and above the wife's normal 22,5% of income) will be allowed on the formula: 20% of combined income less 35% of wife's income, subject to a maximum of R5 000.

(The Budget 1988:41)

The married woman's earnings allowance, however, was extended to include a deduction of 22,5 per cent and an additional allowance, known as a joint assessment allowance, was introduced which provided relief in respect of the wife's earnings, but subject to certain limitations.

Section 20A of the Act granted a deduction to a taxpayer in whose income there had been included certain earnings of his wife. "Earnings" were defined as income derived from trade, and the deduction could accordingly not be granted in respect of a pension received by a married woman. This definition was amended so that the deduction applied also to an annuity derived by a married woman from a pension fund or retirement annuity fund.

A further deduction could be claimed under section 20A - this would be equal to the "applicable percentage" of the wife's "taxable earnings" (subject to a maximum of R4 650), reduced by 20 per cent of so much of such taxable earnings as exceeded R16 000. This allowance was called the joint assessment allowance.

Taxable earnings means a married woman's earnings as already defined for the purposes of the section, less the deductions allowable in respect of her pension fund and

retirement annuity fund contributions and educational donations, and the deduction of R2 250 or 22,5% of her earnings already allowable to her husband.

(South Africa, Explanatory

Memorandum 1988:7)

Standard income tax on employees (SITE) was recommended by the Margo Commission and the recommendation was accepted by the government. This was introduced in the first Budget after the Report was presented.

Note that a R12 000 category taxpayer who pays PAYE as well as SITE will have to render an income tax return. SITE will, of course, be allowed as a credit. If a married woman earning less than R20 000 a year also earns, say, interest, it will be taxed at her husband's marginal rate.

(South Africa, Explanatory

Memorandum 1988)

Net remuneration, as defined for SITE, excluded remuneration derived by a married woman from employment which was in any way connected with her husband's trade or from a private company of which her husband was a director or principal shareholder. In other words, net remuneration excluded any income which fell under the provisions of section 7(2) as well as the remuneration derived by a married woman if her husband's total gross income, other than the remuneration in question, did not exceed R7 500. This meant that the married woman was "allowed" to "deduct" her own contributions to pension fund and retirement annuity fund but only to the extent that she had net remuneration.

SITE had to be determined by an employer at the end of the employee's "tax period". This was normally the end of the year of assessment, or if the employee left the employment before that date, on the date on which he or she left (as defined in paragraph 11B(1)):

any unbroken period during the year of assessment during which the employee was employed by one employer.

The tax period for a woman changing her marital status during the year is as follows:

- when she marries, a tax period is deemed to have ended on the day preceding her marriage;
- when she ceases to be married, a tax period is deemed to have ended on the date on which she ceased to be married.

(South Africa paragraph 11B, Fourth
Schedule)

In the case of a married woman employee, an employer could not take any retirement annuity fund contributions into account unless the employer had received an authorising directive from the Receiver of Revenue (Explanatory memorandum 1988:5). Total allowable deductions for contributions to pension and retirement annuity funds provided that the total deductions which then applied to a husband and wife remained unchanged (The Budget 1988:41).

Section 7(2) stipulated that net remuneration earned by a married woman was not included in her husband's income if all her remuneration was subject only to SITE, in other words, no portion thereof was payable at an annualized rate of more than R20 000 per annum (Explanatory memorandum, 1988:4,5).

Section 14 of Act 90 of 1988 provided that " ... where the married woman is a taxpayer solely by reason of the provisions of paragraph (b) of the proviso to section 7(2), any such expenditure paid by such married woman shall be deemed for the purposes of this section to have been paid by her husband."

Although the wife was now separately taxed on income from employment, a married woman who earned less than a specified amount

(R20 000 in terms of the budget speech) would not qualify for a child rebate or rebates for persons over 60. To prevent hardship at the cut-off point of the system a special reducing rebate would apply. (South African Institute of Taxation 1988:7)

Where a married woman's remuneration was subject only to SITE that remuneration was not deemed to be the income of her husband and was not added to his income and she did not render a return and the amount of tax withheld by her employer constituted her full tax liability. Any other income received by her (e.g. travel allowances, interest, dividends) was deemed to be her husband's and was added to his income (Ernst & Whinney Tax News, 1988:1).

Provided that-

(a) where any husband is at any time married to two or more wives ... the provisions to this subsection shall apply only to income ... of the wife of his longest subsisting marriage.

(b) the provisions of this subsection shall not apply to net remuneration (as defined in paragraph 11B of the Fourth Schedule) received by or accrued to such married woman, if the employees' tax required to be deducted or withheld from all such net remuneration received by or accrued to her during the year of assessment consisted solely of amount of standard income tax on employees determinable under the said paragraph.

(South Africa 1988:Section 5)

The Financial Mail compared the taxes payable by a one-breadwinner family (for an income of R12 000 for a married man under 60 years old) in 1988 and 1989 - the reduction in taxation payable was R225 increasing to a reduction of tax payable of R1 065 for an annual taxable income of R80 000 upwards, irrespective whether the taxpayer had none, or up to three, children (The Budget 1988:41).

The situation, however, was more complex for the two-breadwinner family as shown by the Financial Mail (The Budget 1988:42). Here the difference in taxes payable between the two years (1988 and 1989) could lie between R328 and R3 755, depending on the wife's and the husband's income. The table only provided for an income of R20 000, R40 000, R60 000 and R80 000 for the husband while the wife's salary for each of the above brackets was calculated at R10 000, R20 000 or R30 000. The tax saving was the greatest in each salary block for a salary of R20 000 for the wife, probably because SITE only was payable on that income.

This was not the separate taxation as envisaged in petitions to the Margo Commission, as earnings above R20 000, in conjunction with husband or from investments or a business, were still added to the husband's income. The married woman was also not allowed the same deductions as unmarried individuals or her husband.

4.8 TAXATION LEGISLATION AMENDMENTS FOR THE 1990 YEAR OF ASSESSMENT

The Financial Mail (The Budget 1989:30) acclaimed two major breakthroughs, namely the concessions to married women (through the extension of the SITE system) and the planned abolition of prescribed asset requirements for financial institutions.

The Financial Mail pointed out that the changes in SITE did not mean total separate taxation but that

[i]n fact all that is happening is that the R20 000 ceiling for applying SITE to a married woman's income has been abolished. In future, SITE is the only tax that all married working women will pay. ... But for a married couple, final tax payable will still have to be calculated. Figures released with the Budget by Inland Revenue ... show

across-the-board reductions for a married couple on the new SITE basis, assuming no increase in salaries. Given the likely rate of salary increase, the average married couple could still end up paying more tax this year, as is implicit in the revenue forecasts.

(The Budget 1989:30,31)

The Financial Mail, in a table titled "The SITE story" compared the final taxes payable by a two-breadwinner family in 1989 and in 1990. In the 1990 year of assessment more salary brackets were introduced for the wife, up to earnings of R70 000, and the savings in tax were between R216 and R3 417, depending on the salaries of the husband and wife. The biggest saving was for a salary of R80 000 for the husband and a salary of R50 000 for the wife (The SITE story 1989:31).

The inflation influence was also addressed by the Financial Mail:

Given the likely rate of salary increase, the average married couple could still end up paying more tax this year, as is implicit in the revenue forecasts. Moreover, it appears that up to R20 000, a married woman will pay a flat 25% Site rate. Above that, it appears that normal PAYE tables apply. ... In particular, it should be noted that Du Plessis said that the changes will have no impact this financial year, but will involve an estimated loss of R139m in 1990-91 by when fiscal drag will wipe them out anyway, unless it is combated considerably more vigorously than it has been this year;

(The Budget 1989:31)

Some relief was introduced for married couples by what the Financial Mail called an "easier marriage penalty" by extending SITE to include all working wives and not only on net remuneration up to R20 000. There were still, however, "no significant proposals to counter fiscal drag," but the primary rebate was increased to R1 250 (from R1 100) for married taxpayers and to R850 (R750) for

other taxpayers. The additional rebate for the over-65s rose to R1 450 (R500) (The SITE story 1989:29).

The definition of married person in the Income Tax Act was changed to encompass only male persons, and a widowed husband or wife:

Section 1 was amended by the substitution for paragraph (a) of the definition of "married person" with the following paragraph:

(a) any male person [(other than a married woman)] who during any portion of the period in respect of which any assessment is made, was married and not living apart from his spouse in circumstances which [in the opinion of the Commissioner] indicate that the separation is likely to be permanent, or any person who during any portion of such period was a widower or widow, ... [own underlining].

The definition of married woman was adjusted

(b) by the insertion after the definition of "married person" of the following definition:

'married woman' does not include a married woman who is living apart from her husband in circumstances which indicate that the separation is likely to be permanent nor, where any husband is at any time married to two or more wives, any wife other than the wife of his longest subsisting marriage [own underlining].

The rebate for a married woman was incorporated into section 6 as follows:

(1) There shall be deducted from the normal tax payable by any person other than a company [or a married woman who is liable for the payment of such tax solely by reason of the provisions of paragraph (b) of the proviso to section 7(2)]

... and as far as the rebates are concerned (c) an amount of R1 075 if such person is a married woman.

(South Africa, Section 6)

Section 18 of the principal act was also amended by the substitution of the second proviso to subsection (1) by the following proviso:

Provided further that where [any] the taxpayer is a married woman [is a taxpayer solely by reason of the provisions of paragraph (b) of the proviso to section 7(2) [which means that her husband earns less than R10 000], any such expenditure paid by such married woman shall be deemed for the purposes of this section to have been paid by her husband [own underlining].

(South Africa Section 18)

Finance Week said that "married women will love Barend" noting that the budget "brings tax relief in particular to working couples who at present are taxed at high marginal tax rates". The earnings of a working woman would be assessed separately from the income of her husband and would be taxed on a sliding scale, which started at 25 per cent for remuneration of R20 000, rising to about 33 per cent for a remuneration of R70 000 a year (Cover story 1989:5).

The example was given of a couple, where the man earned R40 000 and his wife earned R30 000. According to the calculation, the new system meant a saving of R1 586 in final tax payable. In the case where a man earned R60 000 and a woman earned R40 000, the saving, according to them, was R2 732 while, at the upper end of the scale, a husband and wife who respectively earned R80 000 and R70 000, would have a final tax bill amounting to R47 735 or R2 837 less than previously (Cover story 1989:5).

The announcement, which represents a further step by government for separate taxation, came as a pleasant surprise. Few had expected it to move so quickly, though

it was a recommendation of the Margo commission that the individual supplants the couple as the unit of tax. It noted that in particular PAYE deductions couldn't be calculated correctly while the incomes of spouses had to be aggregated.

(Preece 1989:5,6)

In the case of a natural person other than a married woman, the following amounts, where applicable, shall, subject to the provisions of subsection (4) be allowed by way of secondary rebates, namely-

(cc) any child or stepchild of the taxpayer who has become liable for the payment of normal tax in respect of any year of assessment solely by reason of the provisions of section 5(1A) shall be deemed for the purposes of this paragraph not to have become liable for the payment of normal tax in respect of such year;" [own underlining]

(South Africa 1962:Section 6)

In 1989 the legislated amendments to the income tax act brought "separate taxation" closer for married couples but still with limitations on the deductions which a married woman could claim, compared with the deductions and rebates available to other taxpayers.

4.9 TAXATION LEGISLATION AMENDMENTS FOR THE 1991 YEAR OF ASSESSMENT

In the same way that 1989's taxation amendments brought separate taxation for married couples another step closer, the 1990 Budget was praised for all the improvements it attempted.

More incentives to personal saving, ... liberation of married women, counters to fiscal drag, and a heavy emphasis on eliminating "backlogs" in social spending - for a stagnant economy forced to export capital it's an impressive list of measures ... "

(The Budget 1990:26)

It was pointed out that as far as personal tax changes were concerned, the main beneficiaries were the lower-income and middle-income groups. The upper-income groups gained least, and were hardest hit by the increased tax on fringe benefits. They, however, benefited most from the exemption of dividend income from tax, "... and the R408m gain from this is 20 times the cost of the perks tax extension. Moreover, the concept of equity also suggests that employment benefit packages worth a certain amount should bear the same tax, irrespective of how they're arranged". It was also noted that the beneficiaries of interest income concessions and the greater separation of women's tax were less easy to establish, but the higher-income groups would probably fare the best. (The Budget 1990:30,31)

All trade income of a married woman, including a reasonable salary from her husband's business, will be taxed separately. Investment income remains taxable in the husband's hands. In addition, [there are] gradual moves to equalise taxes of married and single women. Revenue loss: R206m.

(The Budget 1990:28)

As regards the taxation of married women, the Financial Mail called it the "liberation of married women" (The Budget 1990:26) when Act no 101 of 1990, Income Tax Act 1990, amended section 7(2) of the principal Act as follows:

Any income [other than net remuneration as defined in paragraph 11B of the Fourth Schedule] received by or accrued to a married woman married with or without

community of property shall be deemed for the purposes of this Act to be income accrued to her husband if -

(a) such income was derived by her otherwise than from any trade; or

(b) income was received [by] or accrued to her -

(i) from any trade carried on by her in partnership or association with her husband or which is in any way connected with any trade carried on by her husband; or

(ii) from her husband or any partnership of which her husband was at the time of such receipt or accrual a member or any private company of which her husband was at such time the sole or main shareholder or one of the principal shareholders,

and such income represents the whole or any portion of the total income so received by or accrued to her which exceeds the amount of income to which she would reasonably be entitled having regard to the nature of the relevant trade, the extent of her participation therein, the services rendered by her or any relevant factor, or

(c) such married woman's husband has not during the year of assessment derived gross income (including amounts which would have constituted gross income but for the fact that they were derived from a source outside the Republic) exceeding the amount of R10 000.

(South Africa 1962:Section 7)

This had a major impact on the way a married woman was taxed as previously she had not even been allowed the married woman's earnings allowance of section 20A on income earned in conjunction with her husband, that is where she was in partnership with him,

working for a partnership of which her husband was a partner, or for a company of which he was (broadly speaking) a main or controlling shareholder or director. The only limitations remaining were if the wife earned an unreasonable amount as a salary in the above circumstances, if she earned investment income (this was still taxed in the husband's hands to prevent income splitting), or if her husband did not have gross income of more than R10 000. In the latter case it was to the couple's advantage if they were taxed together.

It was noted that relief to a wife who worked for her husband presumably also meant that the working wife's earnings allowance would disappear, as would another minor anomaly concerning the taxation of a travel allowance (The Budget 1990:31). Section 20A of Act 58 of 1962 was repealed by section 19 of Act no 101 of 1990. Thus ended one inequity that provided a tax advantage to a section of individuals and which prejudiced horizontal equity to other taxpayers (one-breadwinner couples) in an attempt to provide it to some.

The other amendments were all more or less of an administrative nature to provide for the separate taxation of married women regarding assessed losses brought forward from 1989, the married women's earnings allowance, separate assessments for married women, an own R30 000 exemption in terms of section 10(1)(x) for lump sums received under certain circumstances, and provision for separate rate schedules for the married woman.

Section 20 was amended as follows regarding assessed losses:

(iii) where in the case of any married man the balance of assessed loss available to be carried forward from the year of assessment ended on 28 February 1990 was in whole or in part attributable to the inclusion in his income in that year or any previous year of income derived by his wife from any trade carried on by her, and

(a) his wife has continued to carry on the said trade during the year of assessment ending on 28 February 1991; and

(b) the income derived by her from the carrying on of the said trade is in consequence of the amendment to section 7(2) effected by section 4 of the Income Tax Act, 1990, no longer includable in his income,

such balance of assessed loss shall, to the extent that it is attributable to the inclusion in his income of the said income derived by his wife not be set off against income derived by him during the year of assessment ending on 28 February 1991, but shall for the purposes of determining the taxable income derived by his wife during such last-mentioned year be deemed to be a balance of assessed loss incurred by her in such first-mentioned year;

Section 20A was repealed and the married women's earnings allowance was no longer available.

Section 77(8) provided that "[w]here any female taxpayer is during any portion of the year of assessment a married woman and during the remaining portion of such year not a married woman, separate assessments shall be made upon her in respect of each such period".

Provided that, notwithstanding the provisions of section 37D, any lump sum benefit which was received by or accrued to a married woman and which was taken into account for the purposes of this definition in the determination of her husband's taxable income, shall for the purposes of this definition in relation to any lump sum subsequently received by or accrued to either spouse be deemed to be a lump sum which was received by or accrued to the husband.

(South Africa 1962:par 1 of 2nd
schedule)

A wife's investment income was still taxed in her husband's hands, but the only such income remaining was interest. It was expected that tax on that too would disappear when interest became subject to a final withholding tax at source, as announced by Minister Du Plessis. This withholding tax on interest, however, was not introduced.

4.10 TAXATION LEGISLATION AMENDMENTS FOR THE 1992 YEAR OF ASSESSMENT

In response to the needs of the country, the 1991 Budget attempted to close the gap between the taxpayers and those who needed help. Financial Mail noted that if the previous year's Budget was "Barend du Plessis' best to date," 1991's "effort [was] as unequivocally his most ingenious" (The Budget 1991:23). They calculated the concessions in personal tax to amount to a loss in revenue of about R1 billion which reduced the original printed estimate of R28,8 billion to R27,8 billion, still about R2,94 billion higher than it would have been without fiscal drag, at an inflation rate of 13 per cent (The Budget 1991:24).

In a table entitled "Fiscal drag will hurt" (1991:5), Finance Week listed the reduction in taxes for a married taxpayer with two children whose wife received no taxable income in the 1991 tax year. The tax reductions were from R40 less tax for an income of R14 000 gradually moving upwards to a reduction of R1 400 for an income of R150 000.

Finance Week then contended that the reduction in real terms was not worth mentioning as

... by not having adjusted marginal tax rates, the process of fiscal drag means that a greater proportion of inflation-adjusted salary increases will be swallowed in

higher tax brackets. On the other hand, the tax concessions to individuals are a mere R701m, against R4m-plus last year; and even after them, the tax burden on individuals will (on the estimates) rise by 27% - way ahead of the inflation rate, let alone last year's single-digit increase. Even ... fiscal drag will be more serious than for some years.

(Fiscal drag will hurt 1991:5)

Husbands could make a donation to their wives free of donations tax and so split their income. It was believed it would be difficult to close this loophole because a husband could make a donation to a spouse for a number of reasons other than putting income in the hands of the spouse. Estate planning was cited as one example (Fiscal drag will hurt 1991:5). (This loophole, however, was closed later by the introduction of preventative legislation in section 7(2).)

An important change was made to section 7(2) of the Income Tax Act. It previously read as follows:

Any income received by or accrued to a married woman married with or without community of property shall be deemed for the purposes of this Act to be income accrued to her husband if-

(a) such income was derived by her otherwise than from any trade ...

When amended it read as follows:

Any income received by or accrued to any person married with or without community of property (hereinafter referred to as the recipient) shall be deemed for the purposes of this Act to be income accrued to such person's spouse (hereinafter referred to as the donor) if-

- (a) Such income was derived by the recipient in consequence of a donation, settlement or other disposition made by the donor on or after 20 March 1991 or of a transaction, operation or scheme entered into or carried out by the donor on or after that date, and the sole or main purpose of such donation, settlement or other disposition or of such transaction, operation or scheme was the reduction, postponement or avoidance of the donor's liability for any tax, levy or duty which, but for such donation, settlement, other disposition, transaction, operation or scheme, would have become payable by the donor under this Act or any other Act administered by the Commissioner; ...

These changes to section 7(2) were made to prevent income splitting between spouses by way of donating income-earning assets. According to Walpole, however, this section would not necessarily "affect the standard type of family trust used to split rentals to any greater extent than would [section] 103" (1992:11). It must be noted that the new section 7(2) only attacked arrangements made for transfer on or after 20 March 1991 so that an income-splitting scheme established before then "will still operate as intended" (Walpole 1992:9). Walpole was also of the opinion that if the donor could show that the donation was made to benefit the estate of the donor and he could show that the

[S]tructure and administration of the deceased estate were of prime importance, and that, perhaps as a result of his personal circumstances, the scheme adopted was used so as to provide an annual inflow of receipts and accruals for his spouse and children in the event of his death or in order to protect an asset from the predations of his creditors ... [he] might well be able to satisfy a court that his purpose was not solely or mainly the avoidance or reduction of an impost administered by the Commissioner.

(Walpole 1992:10)

Walpole also suggested the use of a trust as a vessel to split income between family members so that lower taxes could be paid by the person donating the assets to the trust (1991:98-100). This would, however, not be possible with the new changes to section 7(2) of the Act, but for the 1991 year of assessment when the act taxed the income of a married woman "from trade" as her own income and not that of her spouse (section 7(2) of the Act), it might well have been possible to provide her with "trade" income from a trust and so avoid excessive taxation. If, however, the transfer was to avoid tax (subsequent to 20 March 1991) then the Commissioner could attack it in terms of the new section 7(2) of the Act.

A provision such as the one in section 7(2) of the Act would be needed if separate taxation was to be the norm.

4.11 TAXATION LEGISLATION AMENDMENTS FOR THE 1993 TO 1995 YEARS OF ASSESSMENT

As far as individuals were concerned, very little changed with these budgets. The annual decrease of top marginal rates, which had been reduced by 1 per cent for three years since 1990 (when it was 45 per cent) did not occur, and the maximum rate for married women was increased to 40 per cent from 38 per cent. This was "in line with the intention government stated three years ago to tax married women at the same rate as single people". (The Budget 1992:33)

The income bands which determined tax rates were reduced and broadened. The effect of this, according to the Financial Mail, was "to create tax benefits among lower-income earners because they remain in the lower rungs for longer. Conversely, higher-income earners reach the top notch sooner" (The Budget 1992:31). The effect of the change in income bands was illustrated by the Minister in his speech by means of the following example:

A married person with two children and a taxable income of R35 000 whose income rises by 10 per cent will find that the average tax rate under the old scales would have risen from 15,1 percent to 16,7 per cent, whereas under the new scale it drops to 14,9 percent, with a reduction in tax of R655 in the 1993 tax year.

(The Budget 1992:46)

The effect was not so favourable for all the income bands and other types of individual taxpayer (Refer to Chapter 6 for an illustration of this). The Minister also illustrated the effect of the tax rate increase and the change in the income bands on married women and noted that all married women with an income of less than R80 500 "will benefit from these changes" (The Budget 1992:46). He pointed out that

a married woman with a taxable income of R30 000 per annum whose income rises by 10 per cent and whose average tax rate under the old scales would have risen from 21,9 to 23 per cent, will find that her average tax rate actually falls to 21,3 per cent. She will pay R570 less than would otherwise have been the case.

(The Budget 1992:46)

Another change to section 7(2) of the Act made in 1992 - a press release dated 5 February gave advance notice of this to enable spouses married in community of property to adjust their provisional tax, as the change was to be retroactive.

The section to be inserted after subsection (2) and numbered (2A) was intended to arrange the tax affairs of people married in community of property.

(2a) In the case of spouses who are married in community of property -

(a) which has been derived from the carrying on of any trade shall, if such trade is carried on by only one of the

spouses, be deemed to have accrued to that spouse, or, if such trade is carried on jointly by both spouses, be deemed, ... to have accrued to both spouses in the proportions determined by them in terms of the agreement that governs their joint trade; and

(b) any rental of fixed property and any income derived otherwise than from the carrying on of any trade shall be deemed to have accrued in equal shares to both spouses...

(The Budget 1992:21-22)

The amendments to section 7 of the Act were deemed to have come into operation as from the commencement of years of assessment ended or ending on or after 28 February 1991 if such income was derived from a trade or, if such income did not derive from a trade, from the commencement of years of assessment ended or ending on or after 29 February 1992 (The Budget 1992:22). This followed the evolution that had taken place in section 7(2) since 1989 when a married woman's income subject to SITE was excluded from her husband's income. In the 1990/91 year of assessment her trading income was also excluded and her income other than from trade was taxable in her hands from the 1991/2 year of assessment (The Budget 1992:26).

Subsection (2C) also deemed that any benefit paid or payable to a spouse as "a member or past member of a pension fund, provident fund, benefit fund or retirement annuity fund shall be deemed to be income derived by such spouse from a trade carried on;" as well as any annuity amount paid or payable to a spouse.

This section thus seemed to provide an advantage to spouses married in community of property, if one or both of them earned investment income. This income was then to be split equally between them. This was an advantage not available to other married couples. According to The Taxpayer, there was "no intention to create preferential treatment for spouses married in community of property as against spouses who are not so married. The treatment is in consequence of the legal proprietary relationship created by a

community estate, and if spouses who are not married in community wish to change their proprietary status the court may do so on a motivated application by them" (The Budget 1992:24).

Very little change in respect of individual taxation was made to the income tax legislation since the 1993 year of assessment. Rates and rebates remained the same and the taxpayer's status also remained the same. This was probably because of the radical political changes anticipated and the old government preferred to wait for the new government to make changes in line with their policies.

In 1994 a Transition levy of 5 per cent (3,33 per cent in 1994 and 1,67 per cent in 1995) (South Africa 1994) of gross income over R50 000 was introduced for all taxpayers with the exception of married women where the levy only came into effect from a gross income of R175 000. The 1995 amendments presented to Parliament in March were drastic and proposed to change the rate schedules to one schedule for all taxpayers eliminating differences in rates between married person, unmarried person and married woman.

4.12 CONCLUSION

This chapter reviewed the legislative changes to the taxation of individuals in South Africa since the inception of taxation legislation in 1910. The changes made to the legislation to accommodate both economic needs and social realities were noted.

The taxation of individuals, with the married couple as the original tax unit, gradually made provision for relief for the married woman's earnings by way of married woman's earnings allowances and joint assessment allowances and evolved to the legislation which regarded the married woman as a separate tax unit, taxed on her own scales, except where this could lead to tax

avoidance. These changes lead to more horizontal equity for the working married woman and the one-breadwinner family. The 1995 taxation amendments (one set of rates for all taxpayers) would negatively influence the horizontal equity for one-breadwinner families. The effect of these amendments and the recommendations of the Katz Commission are discussed in Chapter 6.

The next chapter will discuss all aspects of the report of the Margo Commission in respect of the taxation of individuals, from the representations made to the Commission, and listing the main problems with the system of joint taxation of spouses, to the recommendations made by the Commission.

CHAPTER 5

THE MARGO COMMISSION

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5.6 CONCLUSION

5.1 INTRODUCTION

It has been clear for a considerable time that the South African tax system required a major review and to this end the Government appointed the Commission of Inquiry into the Tax Structure of the Republic of South Africa (here referred to as the Margo Commission). The Margo Commission mainly

concerned itself with the legislation in force in 1984/5 and prior to that. As the report was only published in 1987, however, there had been some tax changes in the intervening years and in 1988 the legislation started to react to the recommendations made in the report.

The previous chapter considered the taxation of individuals' income since 1910 and discussed the legislation amendments up to 1994. This chapter will mainly note the work of the Margo Commission; the petitions made to the Commission as regards the taxation of individuals; possible solutions to the problems inherent in any other option chosen and the final report of the Commission together with the Government's comments as incorporated in the White Paper.

It was the first time that a recommendation of separate taxation was made. From 1988 legislation was changed to accommodate the recommendations in respect of married women. It was for this reason that the work and report of the Margo Commission was considered.

5.2. REPRESENTATIONS SUBMITTED TO THE MARGO COMMISSION

Many letters were sent and personal representations made to the Margo Commission during the time that the Commission considered the system of income taxation in South Africa. The criticism against and problems with the system of taxation of married women and married couples at the time are discussed below and classified according to the main problems listed by the contributors.

5.2.1 FAIRNESS OF THE SYSTEM

One point touched on by most of the petitioners and contributors to the Margo Commission* was the unfairness of the system of joint taxation for married couples. Many petitioners felt that the system whereby a wife's income was added to that of her husband and then taxed at the higher marginal tax rate was unfair, when compared with the take-home salaries of two individuals who earned the same as the married couple but who were not married.

Her [the wife's] income is taxed at the husband's marginal rate of tax, the effect being that her entire work effort is only marginally rewarded. ... Inequity arises from the fact that a married woman with the same income as an unmarried woman is rewarded after tax at a lower level.

(Jacobson 1985:2)

...causes gross inequality of take-home salary.

(Montachio 1984:1)

These viewpoints considered the inequity from the wife's point of view, but it was also felt to be unfair to the husband. Van Zyl (1985:2) stated that "it is extremely unfair that one spouse's taxation is increased by the other spouse's income without him being able to claim a contribution from the other spouse" (own translation).

In a report to the Minister of Finance by the Department of Inland Revenue in 1976, (the Browne Commission) the tax

*The literature used in these sections was obtained from the library of the Standing Committee of Inquiry into the Tax System in South Africa, where all the correspondence and documents of the Margo Commission are kept.

unit in use since 1914, that is the married couple, was justified as follows:

It is based on the principle of ability to pay with consideration of the means of the unit earning the income and disposing of it. The normal situation of a household is that the joint earnings of a husband and wife are applied to the advantage of the joint household ... and the only inequity in the ability to pay may possibly be in the additional expenses that the wife contracts to earn the additional income. It cannot be gainsaid that there are savings when two people live together and consequently there is no unfairness, especially in the middle to higher income groups, if the taxation paid by a married couple is more than the total of the taxes payable by two unmarried persons who each earn an income equal to half the joint income of the married couple. (own translation).

(South Africa 1976:6)

The National Council of Women of South Africa felt, however, that "the ability to pay is obviously an important canon of taxation. However, it is not necessarily the household's ability to pay that should be considered but the individual's." (Jacobson 1985:4)

Joint taxation was, however, considered to be fair when compared with one breadwinner doing extra work to earn the "additional income" which another husband's wife would earn, as this breadwinner was also taxed at marginal rates on this additional income.

[T]here will be justified discontent on the side of the one-breadwinner family, especially when the increased income results from the additional exertion and initiative of the only breadwinner, if it was expected of him to pay more tax than the two-breadwinner family with equal income (own translation).

(South Africa 1976:22)

Although the Department of Inland Revenue considered the married woman's earnings allowance to be justified, they did admit to having received representation for a similar allowance for other income sources, for example for people who received investment income and for pensioners who received a pension but who also worked after retirement for an additional salary. They also noted that the "... concept of the married woman's allowance is in direct conflict with the healthy and longstanding principle of our taxation legislation ... that expenses of a private nature are not an allowable deduction ..." (own translation) (South Africa 1976:7).

Sinclair (1984:12) pointed out that

[A] difference between one and two breadwinner families already exists, for the married woman's allowance does not operate unless the wife works, so that two couples with the same income may pay different amounts of tax according to whether the wife works or does not earn at all.

Joint taxation was also seen as unfair when compared with the taxation of other couples and groups of taxpayers. As Sinclair (1984:11) noted:

Persons who live together outside of marriage do not have their incomes aggregated. Widows and widowers who live together without marrying are married persons within the Act but do not have their incomes

aggregated. In many of these situations there may be only one provider who pays tax on his whole income and who supports the other person sharing the residential unit. Why should the fact of marriage introduce the rigid concept that regardless of the ratios in which income is earned for the support of that married couple, the overall tax payable must be the same?

The National Council of Women also stated that "[t]he current anomaly resulting from the definition of 'married person' in the Act, of a person paying a different quantum of taxes depending on whether their spouse divorced them or died (ie widow/widower v divorcee) should be abolished" (Jacobson 1985:4).

Another inequity was introduced by sections 7(2) and 20(A) of the Income Tax Act 58 of 1962 which prevented a wife, who worked for or was in partnership with her husband or worked for a private company in which he had a specific interest, from benefiting from the deduction allowed from her earnings as a married woman. A bona fide partnership or employer/employee relationship was thus penalised by higher taxes simply because the participants happened to be married to each other.

Once the taxes were paid, the inequities continued because, if tax was overpaid and monies had to be refunded by Inland Revenue, these refunds were always made to the taxpayer, that is the husband, irrespective of whether he or his wife had originally paid too much tax. The wife was also not entitled to her own loan levy when it was repaid. Furthermore, the onus was on the husband to pay the additional taxes due when employees' tax (pay-as-you-earn) failed to recover the full amount during the year, even though the shortage might be in his wife's taxes paid.

The income groups that were viewed as being discriminated against were the middle and high income groups and it was pointed out that a different dispensation which "will prejudice low earners is manifestly unacceptable" (Sinclair 1984:5).

Clearly, this was a complex situation with many inequities.

We are not here dealing with a case of direct discrimination but one where an indirect adverse effect is created by the use of a system which in practice differentiates in its treatment of women and men when taken as a couple for tax purposes. ... The tax system is the result not of intention to discriminate against women but of historical fact.

(Bulletin for International Fiscal Documentation 1985:265)

5.2.2 BIAS TOWARDS MARRIAGE

More tax is paid as a result of aggregation of incomes than would be paid by husband and working wife taxed as two single individuals. This applies above a joint taxable income of roughly R12 000 per annum - a figure unchanged since 1981. Below this income it is beneficial to be jointly taxed. The higher tax bill is seen as unfair or a tax on marriage, and with fiscal drag it has come to affect a relatively large number of taxpayers.

(Jowell 1985:1)

The concept "tax on marriage" had become firmly rooted by 1984 and many of the petitioners quoted this. Income tax was indeed the only tax legislation that treated the taxpayer

according to his or her marital status. General sales tax, value-added tax, company tax, customs and excise duties, etcetera all concentrated on the amounts to be collected and did not ask whether or not the purchaser, shareholder or importer was married (Van der Spuy (on behalf of the Southern African Women's Foundation) 1985:1,10).

Sinclair (1984:8) noted that "a tax penalty is visited upon certain persons simply by the fact of their marriage". She also referred to the tax benefits for persons in the lower income groups as a result of their marriage: "a tax bonus is granted to them simply because they are married".

She further noted that the "marriage penalty" and the "marriage bonus" may vary according to the amount of the aggregated income of the spouses and the ratios in which it was earned. This was anomalous in that the income tax system in force at the time encouraged some persons to marry while it discouraged others from marrying or remaining married. "My view is that, ideally, the tax laws should neither encourage nor discourage marriage. It should not for example, penalize those who do not choose heterosexual wedlock blessed by civil or religious authority." (Sinclair 1984:8 & 9)

The "tax on marriage" was also seen as playing a part in the "dismantling of the healthy marriage and family framework" (own translation)(Womenpower 1985:5). This sentiment was also referred to by the National Council of Women of South Africa in their first document submitted to the Commission:

The unfortunate tendency for young couples who would wish to marry, to cohabit in order to avoid Joint Taxation; and, equally disturbing, the increasing number of happily married couples who divorce in order to avoid Joint Taxation, and continue to live together.

(Schreiner 1985:1)

"It is indeed unfortunate that one of the fiscal policies should appear to negate the Government's belief in and support for the institution of marriage" (Van Zyl 1985:3).

Sinclair (1984:10) pointed out that it was difficult to attain marriage neutrality when the notion existed that all married couples with the same total income should be taxed equally, as they share essential facilities. "The conflict between these goals is exacerbated by the fact that our society is no longer based on the breadwinner-homemaker marriage pattern of the past."

Yet it is quite possible to devise a system of separate taxation that solves some problems yet increases the "marriage tax". Conversely joint taxation could continue in such a way that the marriage tax is removed but all or some of the other problems remain.

(Jowell 1985:2)

It was clear that taxation neutrality towards marriage had many facets. Sinclair (1984:8) noted that the historical concept thereof should have been ignored and that

[m]arriage neutrality is what we should be striving for in these times, when divergent lifestyles are emerging and the dominant pattern of generations past, when men and women had no free choice to live together without formalizing their relationship by marriage, is becoming merely one option among several.

5.2.3 EFFECT ON THE STATUS OF MARRIED WOMEN

"Another important argument related to the inequity of taxing husbands and wives jointly is that women do not enjoy equal status with men as taxpayers" (Sinclair 1984:7).

The status of married women, and women in general, was discussed extensively from several viewpoints and reference was made to the specific non-status in tax law, the new Matrimonial Property Act, the Population Development Programme and the Labour Laws. Sinclair (1984:7) conceded that there was merit in the arguments

... at least to the extent that the unfortunate terminology and structure within the relevant sections of our income tax act do leave one with the impression that women are so-called "non-persons". Section 7(2) is an example of unfortunate drafting that emphasises the lack of identity of the female, married earner. Her income is regarded merely as income that accrued to her husband.

Sinclair's point was reiterated in various ways by the other petitioners to the Margo Commission and was considered by some (especially the feminists) to refer to one of the most hurtful aspects of the joint taxation system.

The National Council of Women of South Africa (Document no 1 1985:1) listed as one of the inequities of the system: "The right of every working person to consider remuneration for his/her labours as his/her personal income, which may not be dealt with by the State simply as an addendum to the income of another, in this case the spouse".

Meyer (1985:2) stated that

the Income Tax Act deems the income of married women and minor children to belong to the husband. This is as fictitious and insulting a concept as it would be to deem the effort put into a job by a woman to be her husband's. The effort is her own, and the salary must be her own to utilize as she sees fit.

The Women's Legal Status Committee (1985:1) referred to the change in the status of women in South African society, especially during the last decade, as follows:

This is reflected in the large number of women who are in paid employment outside the home, either because of the necessity for both marriage partners to earn income or because they are single parents or because of the change in emphasis in women fulfilling their full occupational potential.

Van Zyl (1985:1) noted the lack of privacy that a spouse enjoyed regarding her financial affairs, which also had a detrimental effect on her status.

Jacobson (1985:2) referred to the resolution of the United Nations Commission on the Status of Women, as amended and adopted at the thirty-second session of the Economic and Social Council in July 1961, as follows:

Considering that if the system of joint taxation of the earned income of husband and wife is practised, care should be taken to ensure that married persons do not pay tax at a higher rate than single persons. Affirming the basic principles that the remuneration of the work of women should be no less than that of men and that the tax legislation should not interfere with the right to marry and found a family.

The United Nations Commission also noted the need for tax legislation to provide for equal treatment of men and women in respect of taxation of earned income (Jacobson 1985:2).

The change in the taxation of black married couples was also seen as a slight to the married working woman: "We are not happy with the new idea that women are to be treated like children under the new tax system imposed on blacks. We are not so many wives [sic], we want to be individuals." (Ngwenya 1985:1)

A second argument considering the status of the married woman concerned the changes in Matrimonial Property Law and Labour Law as regards females:

Tax law is now behind other legislation such as the Matrimonial Properties Act which treats marriage as a partnership and revised labour statutes such as the Labour Relations Act which now accord women equal rights and equal treatment in the work place.

(Jowell 1985:6)

The extensive amendments to the Matrimonial Property Act of 1984 which termed husband and wife to be equal partners in the marriage, were also listed as being incompatible with an Income Tax Act which considered the wife to be merely an adjunct to her husband. The considerable change in a married woman's status brought about by the Matrimonial Property Act and the requirements of the Labour Relations Act, which called for equal treatment of male and female in the workplace, were not compatible with the income tax legislation.

Van der Spuy (1985:1) pointed out the efforts made by the Population Development Programme to limit the number of children to two per mother during her lifetime. She noted that the Government had adopted a new educational policy aimed at increasing woman's awareness of the dangers of

overpopulation, but, according to her, this would not be successful unless the woman's status was raised in all spheres:

... a high birthrate goes hand in hand with the low status of women....those countries which have decreased their birthrate have done so in conjunction with improving the status of their women. I refer specifically to the granting, and protection of women's legal and financial majority status by the legislature of each concerned country.

It was made clear that joint taxation infringed upon the woman's status as an independent individual by considering her to be a non-person. The South African tax law lagged behind other South African legislation in that it did not recognize a woman as a separate economic entity.

5.2.4 DISINCENTIVE FOR MARRIED WOMEN TO WORK

The higher tax rates applicable to a married woman's earnings as a result of joint taxation was considered to be a disincentive for married women to work or return to work.

"Aggregation is alleged to be a disincentive for women to continue working after marriage or to return to work after an absence, particularly well educated women who are usually married to men in higher income brackets." (Jowell 1985:3 & 4)

This, noted Jowell (1985:3 & 4), was the same argument as that advanced by individuals who complained against the effect of progressive income tax and high marginal rates on their additional efforts. She noted, however, that the difference for the married woman was that her entire income (less the

allowance) was treated as incremental and taxed at her husband's marginal rate or higher.

The disincentive effect of joint taxation resulted in a "loss to the economy of the services of skilled and/or educated women who, upon marriage, no longer work because ... the effort [is] not worth while" and the "loss to the economy of large sums of money spent on the training of persons who, for the reasons stated above, withdraw from the labour market upon marriage" (Schreiner 1985:1).

It was also pointed out that wives who earned high salaries, the ones hurt by joint taxation, were most likely in managerial or highly skilled posts. There was a shortage of such workers in our country and having women in such posts could help create more jobs for the homeless (Jacobson 1985:2; Van den Berg 1985:2).

Sinclair (1984:4), however, doubted the validity of these arguments, and maintained that women would work when they needed the money:

Many married women are entering the labour market because their husbands are not in a position alone to provide the financial resources the couple needs to maintain the standard of living chosen. These women work out of necessity. As long as their contribution results in any enrichment, that is any increase in the amount of money available to pay for the necessities of life, they will be compelled by their circumstances to continue to work.

Her assessment of the disincentive issue was that poorer women, who are not highly skilled or professionally trained, work out of economic necessity, and would continue to do so. Women work, however, also when they need the stimulation or when they derive job satisfaction from their work:

Joint taxation of husband and wife would not cause professional women to sacrifice the intellectual stimulation and achievement they need. If these women relinquish their careers there will be other factors at play to influence their decisions. One of these factors may be the lack of adequate childcare facilities. Another may, however, be that their financially successful husbands prefer them to stay home and mind the children ...

(Sinclair 1984:6,7)

Sinclair (1984:7) conceded, however, that "there may thus be a margin of middle to upper-income groups within which the tax structure acts as a strong disincentive to potentially productive women".

In the report on the investigation into the taxation of the income of married women, carried out by the Department of Inland Revenue in collaboration with the Standing Commission of Investigation regarding the Taxation Policy of the Republic (South Africa 1976), the Department of Inland Revenue was not convinced that the aggregation of incomes was really a disincentive for married women to do paid work.

... with consideration of factors like sociological circumstances, availability of work (especially in the rural districts), age, training or retraining problems etc. the percentage of married women who are economically active is considered to be rather high in the Commission's opinion and the Commission doubts whether additional incentive by way of tax incentives would have any effect worth mentioning on the situation. ... It is further clear that financial reasons would play a bigger role in the lower and middle income groups than in the higher groups and in

the former group taxation is not such a heavy load that it can be an inhibiting factor (own translation).

(South Africa 1976:24)

Research done by Wessels of the Human Sciences Research Council on The taxation of the income of married women concluded that 47 per cent of graduate married women did not work. She deduced that between 14,7 and 21,6 per cent of these persons could be activated for productive work if the joint income tax system was abolished.

It would moreover appear from the comments that the system is a contributory factor in labour turnover among high level female workers, sometimes causes job dissatisfaction and frustration at work and in the home; and that in some cases it gives rise to matrimonial problems.

(Wessels 1977:14)

5.2.5 PROBLEMS WITH THE PAY-AS-YOU-EARN (PAYE) SYSTEM

The pay-as-you-earn (PAYE) system, which collected tax on a regular basis from salaried taxpayers, was listed as another problem as the deductions for married women were higher than those for any other class of taxpayer earning the same salary.

"To a large degree the dissatisfaction of married women had its origin in the tax deductions made according to the pay-as-you-earn system from their earnings" (South Africa 1976:26). The Browne Commission (South Africa 1976:26) also noted that PAYE was not a tax per se but only a "measure for the collection of tax in expectation of the taxpayer's final liability for taxation ...". Despite this, married women considered it a tax on their incomes and they compared their

deductions with the deductions of taxpayers in other categories.

The Browne Commission gave as the reason for the higher deductions, the fact that the PAYE for a married woman was calculated on the assumption that every married woman had "a husband earning income and that her income is part of the income of the joint household carrying tax in total at a higher rate". They did, however, concede that the total PAYE deductions of husband and wife did not normally cover the full amount of the taxation payable and the husband had to pay in the shortfall (South Africa 1976:26).

Jowell (1985:2,5) commented that

[t]hese [PAYE deductions] do not ensure the correct deduction of tax from both partners' earnings during the year, which leads either to a refund or, more problematically, a need for additional tax to be paid on assessment. The deductions are also different for man and wife, which is seen as unfair. ... I believe that working couples give most weight to the larger amount of tax paid because of marriage and to the inadequacies of the PAYE deductions which make this painfully obvious at year end.

The main comments on and problems with the system of joint taxation were referred to, namely the fact that it was unfair to tax people with the same incomes at different rates; it presented a bias towards or against marriage; it affected the status of women; it acted as a disincentive for married women to work; and the PAYE system deducted more tax from the married woman's earnings during the year than from the earnings of the other categories of taxpayer.

5.3 PROBLEMS WITH PROPOSED CHANGES LAID BEFORE THE COMMISSION

Besides listing the inequities and wrongs of the current system of joint taxation, the representations made to the Margo Commission also contained suggestions for improvement. These included separate taxation of husband and wife; the choice by the married couple to be taxed together or separately; and increasing the married women's earnings allowance. All three of these suggestions had inherent problems.

5.3.1 SEPARATE TAXATION

The separate taxation of spouses involved a system whereby each one was taxed on his/her own income at individual rates. The problems connected with this included income splitting, discrimination against the single taxpayer and one-breadwinner couple, an additional administrative burden for the Department of Inland Revenue and a loss of revenue for the government.

The separate taxation of spouses could take different forms: separate returns and separate assessments; separate returns and joint assessments; joint returns and joint assessments. It could also apply to all income or only to earned income (Tax Research, Inland Revenue 1984:4). The rates suggested differed from married rates for both spouses on their incomes to one rate for unmarried persons and individual married partners (Women's Legal Status Committee 1985:2), or a married rate for the husband and a single rate for the wife. It was also suggested that the rates be revised because

... if no revision took place, persons now benefitting from joint taxation would be prejudiced. Such a

development is clearly unacceptable. New tax scales to take into account the implications of all the changes that will be finally recommended by the Commission may well have to be devised at a later stage.

(Sinclair 1984:17)

5.3.1.1 Income splitting

In a system of separate taxation there was an inherent danger that the married couple would divide taxable income between them in such a way that the minimum of income tax was payable. This was referred to as income splitting and involved the transfer of income-earning assets to the spouse earning the lesser amount of income so that taxation was calculated at lower rates. This was difficult to do when only the 'earned income' (or salary) was taxed separately and all investment income was taxed in the hands of one spouse.

Joint taxation eliminates the possibility of avoidance of tax by way of income-splitting. Were we to adopt a system of separate taxation that permitted even income not "earned" to be taxed separately in the hands of married persons, it seems clear that spouses would manipulate the ownership of income-producing assets to derive a tax advantage. Transfers by husbands to wives would certainly occur. The result would be that couples with large "unearned" incomes would be in a more favourable position than those who relied solely on "earned" income.

(Sinclair 1984:14)

Sinclair (1984:16) suggested that this problem might not prove to be so serious in practice as it was made out to be because the donor of large income-producing assets may fear losing both the asset, and the income it generated, if the relationship failed.

I doubt that a substantial amount of revenue will be lost by such transfers ... also because policing of sham transfers is not new to the administrative authorities. These transactions already take place, I imagine, between other family members. Ultimately, I consider that the increased policing burden on the authorities will have to be accepted, for it does not justify the retention of joint taxation. Nor, I think, but only tentatively, would it warrant distinguishing between 'earned income' and income derived from investment.

(Sinclair 1984:16)

5.3.1.2 Discrimination against the single taxpayer and one-breadwinner couple

The system of separate taxation would be unfair to those people who "benefit" from joint taxation, namely the single taxpayer who had his or her own domestic costs and the married couple with only one breadwinner who would then be taxed at a higher rate, or lose the benefit of the lower, joint rate.

Another manifestation of the unfairness of the individual tax unit is that a single breadwinner family will pay more tax, and consequently will be worse off than a two-breadwinner family with a much larger total income (own translation).

(South Africa 1976:10)

The biggest problem is the system's inability to contrive equal tax treatment for equal incomes of one-breadwinner and two-breadwinner families. Splitting of income between marriage partners provides space for avoidance practices which affects horizontal equity.

(Married Persons 3, 1984:24)

5.3.1.3 Administrative problems

Many of the representations that were made indicated that the authors felt that separate taxation would involve a considerable additional administrative burden for the Department of Inland Revenue.

The complete separation of married couples' income and the issuing of separate assessments to each, also brings considerable additional administrative work as attempts at income splitting and tax avoidance will also increase (own translation).

(South Africa 1976:17)

The Browne Commission (South Africa 1976) noted that requirements in respect of personnel, stationery, printing of additional forms, cost of machinery and accommodation for personnel and records would increase administrative costs considerably while the revenue would decrease.

The Commission felt that the physical range of work in connection with tax assessments and collections would increase in a direct relation to the number of economically active married women which would lead to an increase in the unit cost of tax collecting. They considered the most important aspects, however, to be the lack of personnel and accommodation.

It could alone well be the last drop that will cause the bucket to overflow for an already overburdened tax collecting organisation.

Apart from the physical range of the work concerned, the control measures that will have to be established to thwart tax avoidance, will increase the pressures even more (own translation).

(South Africa 1976:25)

The separate taxation system was still considered by some to be separate only as regards returns but that these returns would still have to be jointly assessed.

[This would be] costly and time-consuming for the Receiver as both files would have to be attended to at same time (and) until both returns are received neither spouse can be assessed - In 1983 there were only 764 couples or 0,14% of cases where both spouses had an income.

(Tax Research, Inland Revenue
Department 1984:25)

5.3.1.4 Loss of revenue

In the final analysis it has to be accepted that a considerable loss in revenue would have to be sustained by the fiscus in order to eliminate marriage as a factor affecting the individuals' tax burden.

(Sinclair 1984:20)

This fact was also mentioned by the Department of Inland Revenue which calculated an approximate loss of R567 million for the 1985/1986 tax year if the husband was to be taxed at married rates and the wife at single rates (Married Persons 3, 1984:5,6).

Womenpower (1985:6), Pretoria quoted officials as saying that R120 million would be lost annually if separate taxation was applied, but it was not clear how this was calculated. Womenpower noted, however, that if the tax burden was lifted for the married couple, more tax would be collected because more wives would enter the labour market. This sentiment was echoed by the National Council of Women of South Africa (Jacobson 1985:2). They quoted the saving on the wife's earnings allowance as approximately R434 million.

5.3.2 CHOICE BETWEEN JOINT/SINGLE TAX UNITS

Another group of petitioners felt that, in order to avoid the disadvantages of either separate taxation or joint taxation, couples should be able to choose between joint or separate tax the most beneficial to them. In this way there would be no discrimination between one-breadwinner and two-breadwinner couples. This was considered to be against the letter of the law and unfair towards other taxpayers. It would also involve administrative difficulties and result in a loss of revenue.

5.3.2.1 Against the spirit of the law

The Browne Commission felt it to be "extremely dangerous" to give an "unlimited right to married couples to move in and out of family unit tax as soon as it saves them money ..." (translated) (South Africa 1976:12).

An optional system does not make sense and uncovers a weakness in the tax system. If a general rule dictates the tax scale but as an alternative grants the right to a taxpayer to choose a lower tariff, not based on ability to pay, but on social grounds, then the time has come to investigate the reliability of such a system, as the uncertainty re what is a reasonable and fair tax on a given amount of income, is an acknowledgement that the basic tax structure is at fault (own translation).

(South Africa 1976:25)

5.3.2.2 Other taxpayers

It was felt that the system would be unfair towards other taxpayers who did not have the option to choose a more

favourable rate/method of tax. It was mentioned though, that the "rates of choice" would be adjusted.

It is inherent in the fairness arguments in favour of a separate family unit system from choice that there is a separate family tariff somewhere between the extremes of "pure averaging" and "pure merging". The first is undoubtedly too favourable for couples who make the choice and too unfavourable for singles and couples who choose individual treatment. The choice of a family tariff in relationship to the tariff for individuals therefore requires fine judgement (own translation.)

(South Africa 1976:12)

5.3.2.3 Administrative problems

An annual election by married couples to be taxed jointly or separately would disrupt the Department of Inland Revenue's records, procedures and administration, and would lead to fluctuations in the number of taxpayers and taxes paid (Tax Research Inland Revenue Department 1984).

Sinclair (1984:18) pointed out that although it appeared as if separate assessments for every individual taxpayer would increase costs and the volume of administration, the increase appeared to be less than what it would be in the case of an election system. This might be a superficial economy as other complications could arise out of the election system, namely

... that some married taxpayers will be on one system and other on another; Will the choice be permanent? Can an election be made for each tax year? Can the choice for a particular year, once made, be altered? These questions are problematical and would not arise if separate taxation were made mandatory.

5.3.2.4 Loss of revenue

It was calculated that the decrease in revenue would amount to something like R800 million for the 1985-1986 year of assessment, based on the following: that only persons who would benefit from separate taxation would be treated as single persons; that rebates would be divided equally between spouses; that for those who were taxed separately the married woman's allowance of R1 600 would fall away (Sinclair 1984:19). In its document tabled before the Commission The National Council of Women of South Africa asserted that the loss occasioned by separate taxation would be partially recouped (R434 million) by the abolition of the married woman's allowance (Jacobson 1985:6). It must be noted, however, that certain couples would still have made use of the R1 600 deduction and, if they could elect which taxation would be applied to them, this saving would not be so high.

It could also be advantageous from a cost point of view as it was noted that, if the election basis used in the United States was implemented here, then the State would benefit to the extent of R1 000 million. (Married Persons 2, 1984:8)

The Irish Taxation Committee (1982) (Married Persons 3, 1984) noted that a joint assessment was generally beneficial and where spouses elected for single assessment, each spouse was taxed as a single person without the right to transfer all of the reliefs between them. Jointly assessed they may elect for separate assessments where joint tax is allocated between spouses.

The advantages of the choice between joint and separate taxation were noted as follows:

If separate taxation, instead of being introduced compulsorily, across the board, were to be introduced on an election basis, it seems clear that only persons

who would benefit from being separately taxed (on present scales) would make the election. Others would retain their status under the present dispensation. ... While at the same time, all complaints arising out of the present compulsory joint taxation could be neutralised. Another advantage may be that the proliferation of assessments that would necessarily accompany compulsory separate taxation would be curtailed. If, as referred to in para 6 above, Dr De Loor's statement that 83% of taxpayers benefit from joint taxation is still true in 1985, no more than 17% of taxpayers would opt for separate taxation.

(Sinclair 1984:17,18)

Sinclair (1984:18) also noted that the election system had proven feasible in both the United Kingdom and the United States, as there were rules which regulated the exercise by the taxpayer of his or her choice.

5.3.3 MARRIED WOMAN'S EARNINGS ALLOWANCE INCREASED

A third suggestion was that the married woman's earnings allowance be increased considerably in order to compensate for progressive rates. This was felt to be against the spirit of the law and would also involve loss of revenue.

5.3.3.1 Against the spirit of the law

Although the deduction allowed from the earnings of married women was justified on the grounds of ability to pay, it is in direct conflict with the healthy and longstanding principle of our tax legislation namely that in the calculation of taxable income, expenses of

a private nature are not an allowable deduction and, as a result of this deviation, many representations are received for a similar relief in respect of other income sources (own translation).

(South Africa 1976:7)

The Browne Commission also noted that a continuing increase in the deduction would result in unfair tax treatment of one-breadwinner families, especially where the breadwinner increased his or her earnings by means of overtime work.

5.3.3.2 Loss of revenue

The loss in revenue to the State as a result of the deduction, based on the latest available statistics regarding the frequency of economically active married women, was calculated at R6 million for every additional R100 deduction allowed for a married woman. The Browne Commission mentioned that the R750 deduction cost the state R45 million in tax relief to those tax units with two working spouses. It was therefore necessary to ensure that joint income was not split in such a way that the husband also obtained a benefit from the R750 by sharing his profits with his wife or paying her a salary. (South Africa 1976:7,8)

It was clear that, although the tax system that operated at the time of the Margo Commission's investigation was not the ideal system, all the alternative systems proposed to the Commission implied major problems and involved substantial costs.

5.4 RECOMMENDATIONS OF THE MARGO COMMISSION

The Report of the Commission of Inquiry into the Tax Structure of South Africa (Margo Report) was published in August 1987 and it made many far-reaching recommendations in the form of a complete and harmonised package. An alternative package was also suggested should the first one not be acceptable (South Africa 1987).

5.4.1 GENERAL PROPOSALS

The main package hinged on the introduction of a Comprehensive Business Tax as a means of financing the gradual lowering of Income Tax, reform of General Sales Tax and a change from joint taxation to separate taxation of husband and wife (South Africa, 1987:90-154).

Further changes suggested were the following:

- Abolition of tax expenditures and concessions
- Neutrality between company tax rates and individual maximum marginal rates
- No taxation on dividends
- Capital transfer tax at a flat rate instead of estate duty
- Abolition of several other minor taxes.

The further changes suggested were not of great concern here except insofar as they affected the taxation of the married couple. They were mentioned merely to show that separate taxation was dependent on the other components of the taxation package and on the entire package being acceptable to the Government.

An alternative package was suggested should a comprehensive business tax not be acceptable, but then the options for reform were felt to be more limited as regards the taxation unit (South Africa, 1987:347).

5.4.2 PROPOSAL REGARDING TAXATION OF MARRIED COUPLES

The Commission recommended that the individual and not the married couple be considered to be the tax unit on a compulsory basis and for all kinds of income.

The reasons they gave for this recommendation were as follows:

- The increasing trend to tax the individual in other Western countries
- The need for marriage neutrality and equal treatment of men and women
- Administrative considerations

The Commission's recommendations, as regards the married couple and the taxation thereof, are given in full here as summarised in the White Paper on the Report of the Commission of Inquiry into the Tax Structure of the Republic of South Africa (South Africa 1988:45-46). (The paragraph references are to the paragraphs in the Margo Report itself.)

- a) Despite the considerations that support taxing the couple as a unit, the Commission recommends that the individual replace the couple as the unit. Its decision was reached after a thorough evaluation of previous South African investigations into the subject, of trends in other Western jurisdictions, and of local and international criticisms of joint taxation (para 7.128).

(b) The Commission believes that the need for marriage neutrality and the equal treatment of men and women justifies a change in the tax unit. It is no longer true that women necessarily depend upon their husbands. Fiscal policy should be seen to discourage neither marriage nor employment. Individual effort should be recognized (paras 7.131-7.134).

(c) Administrative considerations have played a compelling role in the Commission's recommendation that the individual supplant the couple as the unit of taxation. In particular, PAYE deductions cannot be calculated correctly while the incomes of spouses must be aggregated. Harmonization - that is, the application of the Income Tax Act to Blacks - is a further reason for changing the unit, because Black spouses frequently live and work in different places (paras 7.135 -7.137).

(d) The Commission recommends that separate taxation of spouses be made compulsory. To deal with two different tax units, according to the election of the taxpayer, is not administratively feasible, nor is it necessarily more equitable. Nevertheless - and despite separate assessment - for administrative reasons husbands and wives should submit joint returns unless they request separate returns (paras 7.138,7.142).

(e) The Commission recommends separate taxation in respect of all income, and not merely earned income. Income splitting, if it occasions an unacceptable loss of revenue, should be controlled by measures similar to those applying in other jurisdictions, such as Australia (paras 7.139 - 7.141).

(f) The Commission recommends that the matrimonial property system of community of property be overridden

by statute for the purposes of income tax. That is necessary to ensure that spouses who choose this system are precluded from relying upon their joint ownership to average their incomes. As between the spouses themselves, however, the matrimonial property system would operate normally. The Commission would have recommended that the attribution of unearned income, in these marriages, should depend upon the criterion of control, were it not for possible administrative difficulties. Appropriate criteria should be investigated by the committee on tax reform which should continue the work of the Commission (para 7.142).

The Commission further recommended a compromise in favour of the married couple to ensure neutrality between one-breadwinner and two-breadwinner families.

(g) The substitution of the individual for the couple will yield marriage neutrality, but it will entail a loss of neutrality between one-breadwinner and two-breadwinner families. The Commission believes that the individual is the correct tax unit, but that, as long as the one-breadwinner family remains an important family structure, a compromise in favour of the married couple should be made. This compromise takes the form of a recommendation that the primary and child rebates be made fully transferable between spouses (para 7.143).

(h) A low-income rebate of R600 for every taxpayer should be introduced. This rebate will diminish by R1 for every R10 by which taxable income exceeds R6 000. It will therefore disappear at R12 000 - the new FDS threshold recommended in para 8.47. The purpose of this rebate is to prevent thresholds from falling too low, and to alleviate the hardship to taxpayers within

the FDS [Final Deduction System] of being unable to transfer primary and child rebates (paras 7.146-7.149).

i) In the Commission's view, and to keep the recommended system of the individual as the unit as pure as possible, transferability should be confined to the primary and child rebates. The Commission therefore recommends the following (paras 7.148-7.149):

(i) Trading losses of one spouse should be confined to that spouse and not be allowed to be set off against the income of the other spouse.

(ii) Medical expenditure, including contributions to recognized medical benefit funds, should be deductible from the husband's income (he normally makes the contribution as the member) unless the Commissioner for Inland Revenue is satisfied that the expenditure was borne by the wife.

(iii) Deductions not fully utilized by one spouse (for example, pension and retirement annuity fund contributions exceeding the allowable deduction) should not be transferable between spouses.

(iv) The fixed amounts of deductions, including the deductions provided for in the Second Schedule, and exemptions mentioned in the Income Tax Act, should not be adjusted solely because of the proposed change in the tax unit but should be available in their present form to each spouse in his or her capacity as a taxpayer.

(j) The reduced primary rebate, in respect of widows, widowers, divorcees, separated persons and unwed parents, should apply only to those taxpayers who divorce, separate or become unwed parents after the date on which the new tax unit comes into operation (paras 7.150-7.151).

The Commission recognised that it might be necessary to phase in the changes and spread the cost over two years.

(k) For the purpose of estimating the loss of revenue that would be occasioned by adopting the individual as the unit of taxation, statistical models - assuming certain principles - have been developed. While the Commission recommends the implementation of the new tax unit in a single year, it recognized that it may be necessary to phase in the change. For this purpose a statistical exercise has been done to show how the total cost can be spread over two tax years, which need not be consecutive (paras 7.152-7.157).

Two minority views of the Commission that was noted recommended the introduction of a primary and child rebate that could be transferable between married persons "in order to retain some neutrality between one-breadwinner and two-breadwinner families" (South Africa 1988:47). Another minority view called for separate taxation, but as a long term objective, with the couple having the right to elect whether or not to be taxed together. This would depend on whether or not they were disadvantaged by the system then in use. "This method will allow maximum use to be made of existing rules and has the advantage that no married couples will be disadvantaged in nominal terms" (South Africa 1988:49).

5.5 RESPONSE BY PARLIAMENT TO THE RECOMMENDATIONS AND SUGGESTIONS MADE BY THE MARGO COMMISSION

By far the most important recommendation by the Commission regarding personal income tax is that the unit for taxation purposes should be the individual. ... The Government has seriously weighed this proposal and has taken a great number of relevant factors into consideration.

(South Africa 1988:7)

In the White Paper on the Report of the Commission of Inquiry into the Tax Structure of South Africa, the government rejected the Comprehensive Business Tax recommended in the main package of the Commission's Report and, in so doing, decreased the options for reform. This also included reform as regards the taxation of the individual versus the married couple.

The Government's decision in favour of the Commission's proposal for the introduction of a value added tax ("invoice VAT") rather than a comprehensive business tax also has implications for the proposed separate taxation of married couples. The Commission itself points out that this alternative package 'limits the options for reform.' The Commission therefore proposes that if CBT is not acceptable: 'The move from joint to separate taxation of husband and wife will have to be postponed, recourse being had to interim measures to alleviate the marriage penalty.'

(South Africa 1988:8)

The Government felt that, "although the matter is one of great interest to married women, it does not enjoy a high priority in the business sector ...", it was more important to reduce personal income tax and the number of tax brackets, or to

adjust the tax brackets upwards to compensate for bracket creep (South Africa 1988:7).

Furthermore, if the system recommended by the Margo Commission was implemented, there would be a greater tax burden on the one-breadwinner family and "[t]he ability-to-pay principle would thus in the case of the family be negated by the imposition of individual income tax" (South Africa 1988:8).

Another factor that weighed heavily against a system of separate taxation, was the State's loss of revenue as a result of such reform. According to the Margo Commission, implementation of such reform would result in a loss of revenue of 2,2 billion in the 1987-1988 year of assessment. The White Paper listed calculations by Inland Revenue of R3 billion or 25 per cent of the total revenue derived from individuals. Reference was also made to income splitting and the redistribution of income between husband and wife following the introduction of a system of separate taxation and it was noted that "[t]he outcome of this factor could mean a further substantial loss of revenue" (South Africa 1988:8).

Lastly, it was mentioned that not all married couples with two breadwinners would benefit from the proposed system as calculations based on certain assumptions regarding the relative composition of the couple's total income indicated that "[i]n the case of a married couple where the husband accounts for 80 per cent of the income and the wife for 20 per cent, the total tax burden would increase marginally as a result of separate taxation where the joint income lay between R12 000 and R22 000" (South Africa 1988:8).

The Government did, however, agree with the Commission that treating the individual as the unit for income tax purposes would involve substantial administrative benefits. They also concurred that the individual is often accepted as the unit for tax

[F]or a large proportion of the population even if married, the correct information for joint taxation is simply not always available. The Government is also informed that in the case of separate taxation of married couples Inland Revenue foresees many problems with the application of the Commission's proposals for the treatment of primary and child rebates.

(South Africa 1988:8)

Thus, the proposals of the Margo Commission in favour of separate taxation for married couples were not accepted in the White Paper (South Africa 1988:8), but the Department of Finance was requested to pay "special attention to other recommendations of the Commission that may possibly bring relief from the so-called 'marriage penalty'". The standard income tax on employees was noted as one of the proposals for alleviating the penalty mentioned.

5.6 CONCLUSION

In 1984, the Margo Commission was appointed to consider the tax situation in South Africa. The various aspects and drawbacks of taxing the married couple jointly as represented in submissions to the Margo Commission by persons and organisations in favour of or against the system were considered, and possible alternatives and their implications, to the present system.

Furthermore, the Margo Commission proposed to the Government that the individual, and not the married couple, be considered the tax unit.

Lastly, Government's response to and rejection of the proposals of the Margo Commission regarding the separate taxation of husband and wife, were covered.

From the information given in this chapter it can be deduced that there was a growing awareness of the tax plight of the married couple with a working wife and that something had to be done to alleviate this. The next chapter will show the effect of post-Margo legislation on horizontal equity between individuals.

The most important fact recognised in this chapter, besides listing the problems with the various solutions, was the Margo Commission's recommendation of separate taxation but with transferable allowances. This system was introduced in the United Kingdom in 1990 and would seem to provide horizontal equity or more horizontal equity for individuals as it provides relief for one-breadwinner couples as well.

This chapter assisted in giving background to the problems with the system of taxation of individuals, especially with regard to married taxpayers.

The next chapter will compare the post-Margo legislation with the 1984 or pre-Margo legislation regarding individuals in an attempt to calculate the level of horizontal inequity in force, the changes to that level over the past five years, and the status quo as in 1994.

CHAPTER 6

HORIZONTAL EQUITY AND THE TAXATION OF INDIVIDUALS

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6.7 CONCLUSIONS

6.1 INTRODUCTION

In previous chapters the taxation of individuals in South Africa was discussed, noting the major changes in the taxation system over time in response to historical and social changes. A major change in the system came about during the last ten years mainly in response to

recommendations made by the Margo Commission in 1987. The petitions, correspondence and representations to the Commission were discussed in detail in Chapter 5. The taxation of the married couple as a unit, that is, the taxation of the married woman at the highest marginal rates payable by her husband, the fact that she was ignored as a taxpaying individual and other problems, were addressed by the Commission. It suggested various recommendations to remedy these problems.

This resulted in annual taxation legislation changes in the taxation of individuals through a reduction of tax-rate tables, increases in the married woman's earnings allowance, creation of a joint assessment allowance and, eventually, the separate taxation of married women. From the 1996 year of assessment only one set of rates would be applicable to all taxpayers.

This chapter quantifies the changes that have taken place from 1985 to 1995 and compares the married couple's tax burden with that of an unmarried individual earning the same income as that earned by the couple jointly. The taxation payable for the two groups (the unmarried person and the married couple) is calculated for a range of taxable incomes from R1 000 to R200 000 with discrete intervals, taking into account primary rebates and factors such as the married woman's earnings allowance and the joint assessment allowance.

In Chapter 2 it was shown that to measure horizontal equity, the taxation payable by separate economic units must be compared. In this instance the units would be the married couple, as one economic unit, and the unmarried person.

The differences in the taxation payable were calculated and it was shown that, as the married person's rates were lower than those of the unmarried individual, the married couple's tax was normally lower throughout the changes. This was due to the fact that the taxable income of the married person could be reduced by the married woman's earnings allowance, joint assessment allowance and, later, the fact

that the married woman was taxed separately and the joint income was then effectively taxed at lower maximum marginal rates. There were only a few instances where the married couple paid more tax on a certain income than the unmarried person. This was usually where the married woman earned the bulk of the couple's income as her tax threshold was the lowest of the three taxpayer groups.

The comparisons over the period reviewed then indicated whether the new system was horizontally more equitable than the old system of taxing the married woman's income together with her husband's income.

The influence that the suggestions made in the interim report of the Commission of inquiry into certain aspects of the tax structure of South Africa (Katz Commission) will have on the horizontal equity of individuals is discussed together with certain specific problem areas with horizontal equity in the current taxation system.

Note that, as in previous chapters, where reference is made to the Act or to sections of the Act, this refers to the Income Tax Act, 58 of 1962.

6.2 BACKGROUND, ASSUMPTIONS AND BASES FOR CALCULATIONS

The different types of natural taxpayer as defined in the Income Tax Act, 58 of 1962 were used as basis for the calculations. In 1984, when the Margo Commission held its hearings and collected its information, the units of tax were the unmarried taxpayer and the married person. Although legislation changed and the married woman became a separate taxpaying entity defined in the Income Tax Act, for reasons of comparability the married couple is seen as a unit and their total taxes payable compared with taxes payable by an unmarried person. The married couple remained an economic unit raising their children in one household where they (the husband and wife) shared the

costs of living, compared with an unmarried individual who paid these costs on his or her own. The unmarried individual caring for children and entitled to a child rebate will be discussed in paragraph 6.2.3.

The taxable incomes used for the calculations, as well as the deductions, rebates and other factors influencing the final taxes payable are discussed here. Also, any assumptions that had to be made to ensure a reasonable end-product.

6.2.1 INCOME AND TAXABLE INCOME

Calculations were based on taxable income assuming all incomes were earned from employment with no other tax-exempt incomes being earned or tax-deductible expenses being incurred. No fringe benefits as such or investment incomes or any other income which had allowable deductions or other tax implications, were considered. These incomes were treated in the same way for the different tax groups in most instances and would therefore not have impacted on the comparability or the horizontal equity considered.

It must be mentioned that, with the gradual separation of the married woman's taxable income from that of her husband, her earnings from employment were the first to be separately taxed while income from investments was the last. This could have had an impact on the equity as compared with the taxation of an unmarried taxpayer, but, as this situation existed for only a few years, it was not considered to be important enough to quantify separately.

Investment income was, therefore, excluded. But, as the wife's investment income became taxable in her hands, if the husband and wife both had investment income they both qualified for the exemption in terms of section 10(1)(i)(xv) of the Act of R2 000 annually on interest. This was advantageous and, on a person-to-person basis, was

horizontally more equitable. Should only one spouse, however, have investment income, and donate a portion of the investment to the other spouse, the income from the donated investment would still be taxed in the hands of the donor spouse. The income was deemed to accrue to the donor spouse in terms of section 7(2) of the Act. This section specifically prevented income splitting between spouses which would negatively have affected horizontal equity as the unmarried person did not have the option of dividing his investment income to apply lower tax rates.

According to the "Statistics of taxpayers" (1985:81) the largest number of taxpayers, namely 788 810 out of the 2 158 609 taxpayers, were in the R2 000 to R8 000 income categories. The R20 001 to R22 000 income category provided the highest tax assessed as a percentage of total tax assessed, namely 7,09 per cent from the 69 380 taxpayers. There were only 1 181 taxpayers in the over R150 000 income category and they provided 3,4 per cent of all taxes paid.

Taxable incomes ranging from R1 000 to R200 000 were therefore used in the calculations done on a spreadsheet program generated by computer and using the following intervals:

- R1 000 increasing by R1 000 up to R20 000, thereafter increasing by R2 000 to R40 000 and thereafter in increments of R10 000 to R200 000. In 1985, and for a few years thereafter, the tax tables were very detailed, using increments of R1 000, (later R2 000) and every R1 000 had a different rate. Although this has now changed to considerably fewer rate bands and, with inflation, the earnings have increased, the calculations were based on the taxable income intervals as set for 1985. These detailed tax calculations are included as Appendix A.

- In the summaries of taxes payable and the comparison of differences between taxes payable by the married couple and the unmarried individuals, increments of R5 000 were used from R5 000 up to a taxable income of R20 000 and thereafter increments of R10 000 to R200 000.

6.2.2 DEDUCTIONS AND REBATES

All deductible expenses and allowances were ignored except for the standard deduction allowed in lieu of medical expenses for certain years. Apart from that medical expenses were not considered and as this deduction was closely linked to taxable income and limited to an excess of 5% thereof, the taxpayer became mainly responsible for his or her own medical expenses. As all taxpayer categories have the same limits for their age, this deduction did not have a material impact on horizontal equity. A further assumption made in the study, namely that all taxpayers are childless, meant that the effect of medical expenses incurred for children was not considered.

Pension fund contributions allowed up to certain limits per person were not considered, as the allowance did not change over the period and it did not impact on horizontal equity because the husband and wife were, and still are, each allowed the same deduction in this respect as the unmarried individual (Section 11(k) of the Act).

Retirement annuity fund contributions were always limited per taxpayer which meant that the married couple together had the same allowances as the unmarried individual and this was considered to be unfair. With the separation of the tax of the husband and wife, the married person (husband) was allowed the same deduction as the unmarried person (Section 11(n)(aa) of the Act), but the married woman (wife) was only allowed half that amount unless she could claim 15 per cent of her non-retirement funding employment income (Section 11(n) proviso (vii) of the Act).

This was still considered to be unfair, but, as the taxable incomes used were from earnings this could be considered retirement funding income. A separate calculation was done later (paragraph 6.5) to show the impact of this, together with the concept of "breadwinner" and other worst-case scenarios.

Insurance and other deductions which fell away over time were ignored, although where a minimum rebate for insurance was allowed this was deducted with the primary rebate (Section 6(3)(b) of the Act).

In all other cases only the primary rebates were deducted from tax payable as these differed for married and unmarried persons and, later, for married women.

No age rebates, that is, rebates for taxpayers between sixty and sixty-five years of age and over sixty-five years of age, were deducted. It was assumed that all taxpayers were under sixty as the age rebates were the same irrespective of whether the taxpayer was a married or an unmarried person. The married woman, however, was not entitled to the over-sixty rebate and, until 1992, was not entitled to the over sixty-five rebate. This affected horizontal equity, but, as the over-sixty rebate was only R120 per annum and was being phased out, this was not seen as a serious problem. It must be noted, however, that for the past four years a married woman older than sixty years of age in 1991 has been paying R120 more tax than her unmarried or married person counterparts.

As the over sixty-five rebate has been available to all taxpayer categories since 1992, this had no effect on horizontal equity for the years of assessment ending on or after 28 February 1992. For the two years before 1992, when the married woman was taxed as a separate individual, however, the rebate of R1 330 for persons over sixty-five years of age on the last day of the year of assessment would have had a negative impact on the horizontal equity where the married woman was over sixty-five years of age. As the inequity only continued for a limited period, the negative impact on horizontal equity was not calculated but is merely mentioned here.

6.2.3 CHILDREN

It was assumed that both married couples and unmarried individuals were childless. If an unmarried person supported a child and this person claimed a child rebate, then he or she would have been entitled to be taxed as a married person with a higher primary rebate and lower tax rates. This meant that the taxes payable by an unmarried person and a married couple would, except for the married woman's earnings allowance, be identical and no meaningful comparison would therefore be possible. The child rebate could have affected horizontal equity in respect of the married woman as she was not entitled to a child rebate even though she might have been the sole or co-provider for all the needs of the child or children. As the rebate was only R100 per child (R150 for the sixth child and more (Section 5(3) of the Act)) this would, in most instances, not have been a material amount or have impacted to a great extent on taxes payable by the married woman.

6.2.4 MARRIED WOMAN'S EARNINGS ALLOWANCE AND JOINT ASSESSMENT ALLOWANCE

In the calculations, where the legislation for that particular year permitted it, the wife's earnings allowance was calculated and deducted from the taxable income. It was assumed that all the income of the married woman consisted of "earnings" as defined in section 20A of the Act and therefore subject to her earnings allowance.

In 1989 and 1990, the joint assessment allowance was calculated and deducted to arrive at the couple's taxable income (Section 20A(1)(b) of the Act). As the income earned by the married woman was considered to be net remuneration, and this has been taxed in her own hands since years of assessment ending 1991 - "Any amount other than net remuneration as defined in paragraph 11B of the Fourth Schedule ...

shall be deemed for the purposes of this Act to be income accrued to her husband" (Section 4, Act 101, 1990) - the joint assessment allowance was not calculated for the taxes payable since 1991.

The joint assessment allowance and the married woman's earnings allowance were both instruments used, together with the differential tax rates, to attempt to reduce the horizontal inequities involved in the progressive rates and higher marginal taxes paid as a result of adding the wife's earnings to those of her husband.

Other assumptions and relevant deductions will be discussed in paragraph 6.3.

6.2.5 INCOME COMBINATIONS

The husband and wife could earn their combined income in many different proportions, from a one-breadwinner family where the husband was the breadwinner to a fifty-fifty or equal contribution combination (where both husband and wife contributed the same earnings) to a situation where the wife earned all the income. All these different combinations could lead to substantially different taxes being payable by the married couple on the same combined income.

To accommodate this, the calculations were done using nine combinations ranging from a 100:0 income for the husband (the one-breadwinner family with the husband earning all the income), through 80:20 (eighty percent of the combined income being earned by the husband and twenty per cent being earned by the wife) 70:30; 60:40; 50:50 (each spouse contributing half of the combined income), to an ever-increasing portion being earned by the wife from 40:60; 30:70; 20:80 to 0:100, where the wife was the sole breadwinner.

The legislation was changed to accommodate the last-mentioned combination so that if the wife was the sole breadwinner or the husband had not earned more than R10 000 gross income from all sources (that is, even his non-taxable income from outside the Republic), their joint income was taxed as that of a married person. The breadwinner wife and her husband's income were taxed jointly at married person's rates. This could bring considerable tax relief to married couples under such circumstances. It must be noted that the taxes payable would then be exactly the same as in the case where the husband was the sole breadwinner, that is the 100:0 combination.

In the calculations and summaries, however, the 0:100 at married woman's rates were retained for comparability, even though legally the situation might not have existed. That is, if the wife earned a hundred per cent of the joint income, it would be taxed at married persons' rates. But what if the husband's income was obtained from a non-Republic source or was not taxable, the wife would then pay the taxes as calculated for the 0:100 combination. It was assumed that in the 0:100 combination the husband had an income from a non-Republic source that exceeded R10 000 so that he was not taxable in the Republic, but neither did the couple qualify for aggregation in terms of section 7(2) of the Act.

All amounts were calculated ignoring cents.

6.2.6 MEASURING HORIZONTAL EQUITY

As shown in Chapter 2, horizontal equity or inequity was not easily measurable. It was generally accepted that a single person expended less for direct living costs than a person with dependants. The concept of married person tax rates being lower than those of the unmarried person underlined this. This was especially clear before

the married woman entered the employment market in large numbers and when she was still dependent upon her husband for financial security.

The household functioned as the economic unit and therefore the taxation of all persons contributing to that household's income had to be compared to the tax burden of other households. As the main contributors to a household of a married couple were normally the husband and the wife, their total tax payable had to be considered the household's tax burden.

The question remained, however, how much more did it cost the two-person household in direct cost of living, than the one-person household? The Tax Reform Act of 1969 in the United States of America mandated into law the principle that, for any given amount of taxable income, the single return tax burden could not be in excess of 1,2 times the tax due on a joint return (Chapter 3, paragraph 3.3.2.1).

The statistical survey of household expenditure (South Africa, 1990) showed that the average annual expenditure per one-person household was R19 340 and for the two-person household R52 988. If the expenditure on luxury items such as recreation, restaurants and holidays was ignored and only food, housing, fuel and medical expenses were compared the one-person household spent R7 324 compared with R19 223 for the two-person household and R19 295 and R22 351 for the three-person and four-person households respectively. (This subject will be discussed in more detail in Chapter 7.)

6.3 RESULTS AND COMPARISONS ON AN ANNUAL BASIS: 1985 TO 1995

The taxes payable and the differences between the taxes payable by the married couple and the unmarried person were calculated from the 1985 to the 1993 years of assessment. This would have included the 1994

year of assessment as there were no changes in the 1993 legislation affecting the taxation of individuals that impacted on the calculations of taxation in Appendix A. The rates and rebates applicable to the 1993 year of assessment remained the same for the 1994 year of assessment.

The taxation legislation for individuals for the 1995 year of assessment was different from the 1994 year of assessment only insofar as it imposed a transition levy and therefore no separate calculations were done for that year. The transition levy imposed on taxpayers for the 1995 and 1996 years of assessment was ignored as it was considered to be an isolated occurrence. It must be noted however, that on a person to person basis, the married woman only paid the levy on taxable incomes exceeding R175 000 for 1995 (3,33 per cent of taxable income) whereas the unmarried person and the married person paid this levy on taxable incomes exceeding R50 000. Clearly, the household was considered to be the taxpaying entity in this respect (until the 1995 amendments) and as such the high threshold for married women could be considered to be fair. For the 1996 year of assessment, however, all taxpayers paid the levy on taxable incomes in excess of R50 000.

The married couple's tax in total was compared with the tax payable by the unmarried person, instead of comparing the wife's tax on income and the husband's tax on income separately with each other and with the unmarried person's tax on income. This was done because the tax system as it was in 1985 was compared with later systems and in 1985 there was no separate taxation. The family's tax on income, therefore, was compared with the tax of the unmarried individual's for purposes of horizontal equity. These calculations and results were summarised annually and the comparisons discussed here.

6.3.1 THE 1985 YEAR OF ASSESSMENT

There were small changes in the legislation from the previous year (mainly the tax rates) which were more or less negated by the increase in the rebates. The standard deduction in lieu of medical expenses for the unmarried individual was R200 and for the married couple it was R300 and was deducted to arrive at taxable income. The wife's earnings allowance was a maximum of R1 600.

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1985

(Refer Appendix A-1)

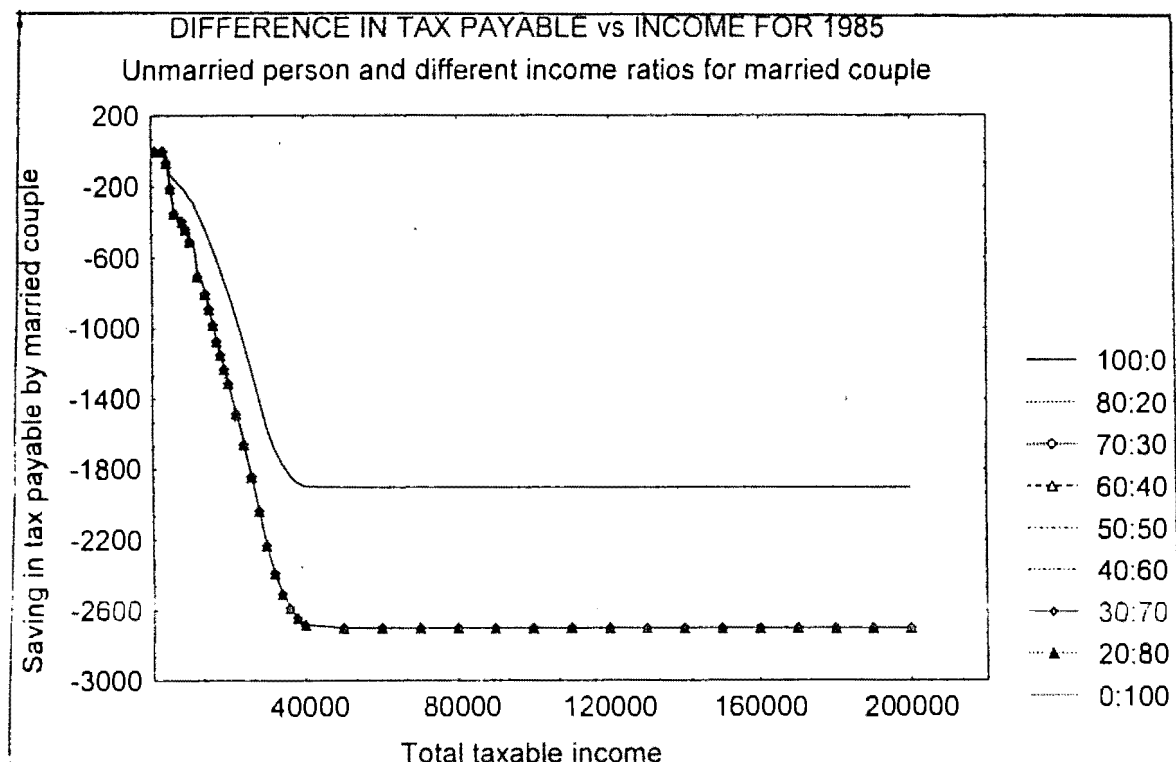
TAXES PAYABLE - 1985

Taxable Income	100:0	Married Couple				Unmarried Person
		80:20	50:50	20:80	0:100	
R	R	R	R	R	R	R
10 000	722	484	484	484	484	988
20 000	3 294	2 782	2 782	2 782	2 782	4 093
30 000	7 064	6 392	6 392	6 392	6 392	8 622
40 000	11 723	10 939	10 939	10 939	10 939	13 622
50 000	16 720	15 920	15 920	15 920	15 920	18 622
100 000	41 720	40 920	40 920	40 920	40 920	43 622
150 000	66 720	65 920	65 920	65 920	65 920	68 622
200 000	91 720	90 920	90 920	90 920	90 920	93 622

The table above as well as the tables that follow for the following years, were all summarised from the tables in Appendix A.

The unmarried taxpayer started paying tax (with the surcharge that was applicable in 1985) at a taxable income of R4 000 whereas the married couple only started paying tax for a 100:0 split at R5 000 and thereafter at a taxable income of R6 000 for a 80:20 combination - only R50 tax payable. For the other combinations the married couple also started paying tax at a taxable income of R7 000, the tax payable being R2 (Appendix A-1).

From a taxable income of R8 000 and higher, the taxes payable by the couple remained the same irrespective of the split used from 80:20 onwards. The tax payable by the married couple was always more for the 100:0 combination, where the husband was the only breadwinner, as the married woman's earnings allowance was not then deductible (because the wife had no earnings from which to deduct it). This allowance was deductible in all the other categories. From a taxable income of R50 000 upwards, earned by the married couple, the difference in taxes payable between the 100:0 and the other combinations amounted to R800.



(Extracted from Appendix B-1)

The difference between the taxes payable by the married couple and by the individual was, with certain exceptions, the same irrespective of the split. That is, the individual consistently paid a greater amount of tax than the married couple. For taxable incomes of R50 000 and more it amounted to R2 702 more tax for all combinations of income except for the 100:0 combination where only R1 902 more tax was paid by the unmarried person than by the married couple. For a taxable income of R4 000 the difference was only R61. Although it would

indicate horizontal equity that the unmarried person should pay more tax than the married couple, the question arose whether supporting a wife on a taxable income of R4 000 cost only R61 per annum, especially if she was also earning a part of that income. For 1985 the biggest horizontal inequity was in the higher taxes paid by a single breadwinner married person compared with other married persons.

The 1985 year of assessment was used as the basis for further comparisons and was one of the years in which the taxes payable were the highest. For the period under review, only in 1986 were higher taxes payable than in 1985. According to the Income Tax Reporter (Marginal and average rates 1985:217) the average tax rates for the married person ranged from 2 per cent at a taxable income of R5 000 to 29 per cent at R38 000, whereas the unmarried person paid tax at an average rate of 2 per cent at a taxable income of R4 000 to 33 per cent at R38 000.

It must be noted that another inequity which existed was the taxation of black taxpayers in terms of the Taxation of Blacks Act 92 of 1969. It was inequitable to tax certain persons according to one schedule of rates and others earning the same income, at another set of rates merely because they had a different skin colour. This Act ceased to be effective on 29 February 1984. Black taxpayers were then also taxed in terms of the Income Tax Act, 58 of 1962 (Taxation notes 1984:239).

6.3.2 THE 1986 YEAR OF ASSESSMENT

In the 1986 year of assessment the primary rebate for the unmarried person increased to R620 and for the married person to R880, with the standard deduction in lieu of medical expenses of R200 and R300 respectively still applying. A surcharge on the tax payable (after deducting rebates) in excess of R750, at seven per cent, ensured a

considerable increase in taxes payable for most taxpayers. The married woman's earnings allowance remained at R1 600.

For the married couple, the following table shows the same pattern as for the 1985 year of assessment, that is the same taxes irrespective of the split of income for the married couple, except for the 100:0 split where the tax was once again higher than for the other income combinations, as the wife's earnings allowance was not deductible when only the husband earned taxable income.

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1986

(Refer Appendix A-2)

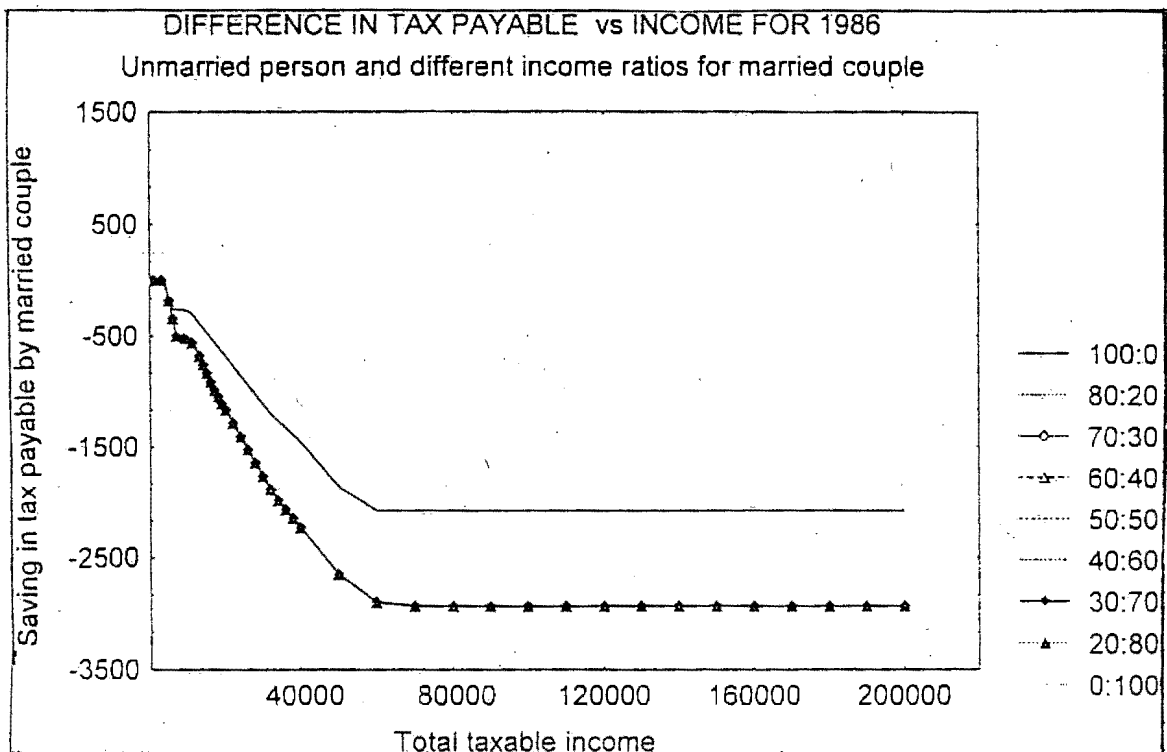
TAXES PAYABLE - 1986

Taxable Income	Married Couple					Unmarried
	100:0	80:20	50:50	20:80	0:100	Person
R	R	R	R	R	R	R
10 000	634	361	361	361	361	935
20 000	2 993	2 513	2 513	2 513	2 513	3 704
30 000	6 599	5 948	5 948	5 948	5 948	7 748
40 000	11 155	10 385	10 385	10 385	10 385	12 658
50 000	16 074	15 287	15 287	15 287	15 287	17 982
100 000	42 597	41 741	41 741	41 741	41 741	44 732
150 000	69 347	68 491	68 491	68 491	68 491	71 482
200 000	96 097	95 241	95 241	95 241	95 241	98 232

The unmarried individual started paying tax on a taxable income of R5 000 but the married couple only paid from a combined income of R7 000 for the 100:0 split and from R8 000 (a tax of R18) for the 80:20 and other combinations (Appendix A-2).

The highest taxes payable on a taxable income of R200 000 were R98 232 at an average rate of 49 per cent for the individual, R96 097 (48%) for the married couple for the 100:0 combination and R95 241 (47,6%) for the 80:20 and other combinations.

For an income combination of 100:0, the difference between taxes payable by the married couple and unmarried taxpayers was R2 075, from a taxable income of R60 000 upwards. For income combinations of 80:20 and others it was R2 931 from R70 000 taxable income upwards, that was, more or less three per cent of tax payable. This is illustrated in the graph below.



(Extracted from Appendix B-2)

It was accepted that from a certain taxable income (normally the highest category, that is where the maximum marginal rate applied to the taxpayer) the difference between the taxes payable by the married couple and those payable by an unmarried person would level out or remain the same as was the case, from a taxable income of R70 000 (Appendix B-2). This made economic sense as the monies received were used first for necessities such as food, clothes and housing which could cost only so much for the spouse.

Note that, although the 1986 taxes were retrospectively reduced in 1987, this was not shown in the above calculations, as the effect of

the surcharge was quite substantial and could indicate the extent of the subsidy for the married woman's earnings, if it were indeed intended as such.

There was no real change in the horizontal equity or inequity as compared with the previous year. The higher rebates ensured lower taxes than in 1985 for most of the income groups except for persons earning R100 000 or more. Here all income groups, and not just the married couple or the individual, paid more tax. This increase was ascribed to the effect of the surcharge.

6.3.3 THE 1987 YEAR OF ASSESSMENT

The primary rebates were increased from those in 1986 to R880 for a married person and R620 for an unmarried person. The R30/R25 minimum insurance rebate still applied for the 1987 year of assessment.

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1987

(Refer Appendix A-3)

TAXES PAYABLE - 1987

Taxable Income	Married Couple					Unmarried
	100:0	80:20	50:50	20:80	0:100	Person
R	R	R	R	R	R	R
10 000	609	336	336	336	306	876
20 000	2 703	2 226	2 177	1 881	1 689	3 335
30 000	5 905	5 257	4 846	4 252	3 870	6 926
40 000	9 951	9 182	8 265	7 292	6 659	11 285
50 000	14 318	13 444	12 133	10 822	9 951	16 012
100 000	37 867	35 967	33 117	30 267	28 367	39 762
150 000	61 617	58 767	54 492	50 217	47 367	63 512
200 000	85 367	81 567	75 867	70 167	66 367	87 262

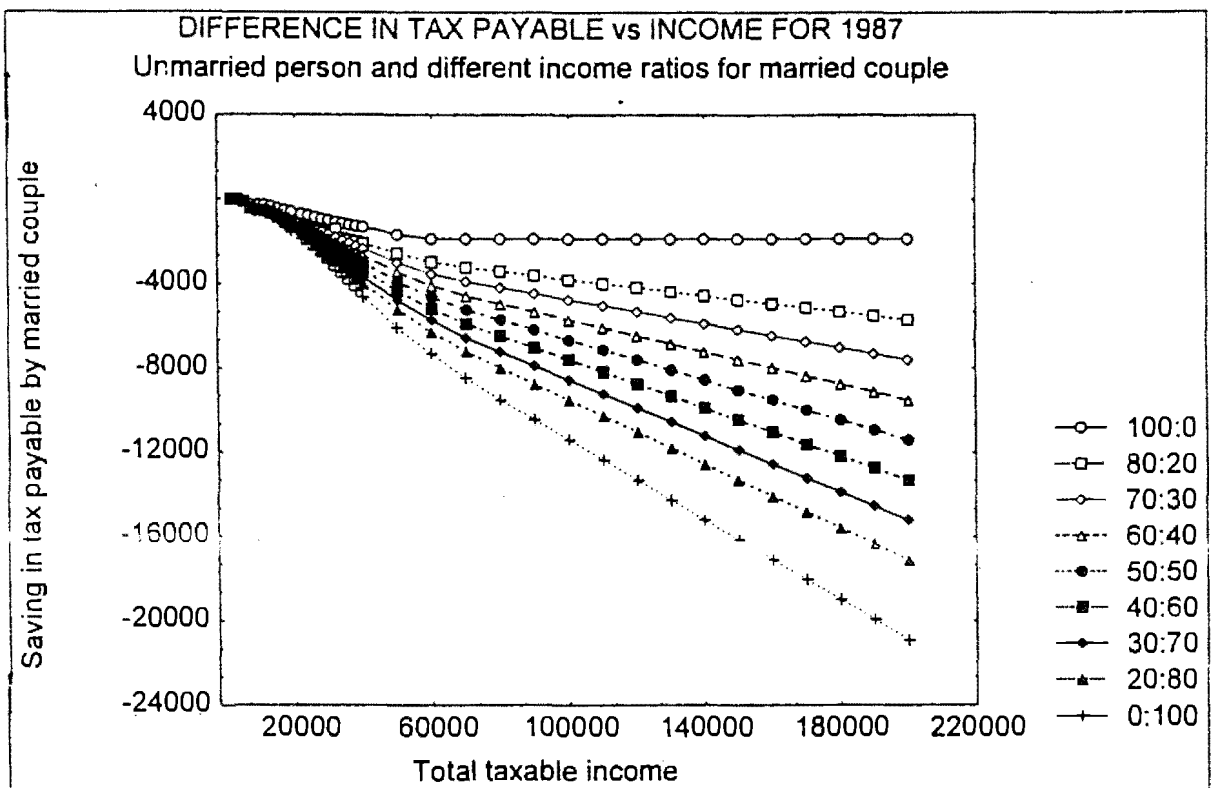
The married woman's earnings allowance was substantially increased from R1 600 to R1 800 or 20 per cent of taxable income. The 20 per cent exemption meant that the taxable portion of the wife's earnings was lowered considerably and, according to the Income Tax Reporter (The principal budget fragment 1986:100), this concession was sponsored by the other tax groups, namely bachelors, spinsters, widows and widowers and even the marginal earnings of the married man.

The marginal rate on the wife's earnings of R12 000, if her husband earned R15 000, was 21,6 per cent whereas the rate for the husband, if he earned the additional R12 000, was 28,2 per cent and for the unmarried taxpayer in the same circumstances, 32 per cent. This marginal rate increased to 47,5 per cent for both the married man and the unmarried person for an income of R60 000 on an additional income of R18 000, whereas the marginal rate, if the married woman earned the additional income, was a mere 38 per cent (The principal budget fragment 1986:100). The wife's earnings, however, were still taxed in her husband's hands and therefore at his highest marginal rates.

The individual started paying tax at a taxable income of R5 000 whereas the married couple paid only from R6 000 (100:0 ratio), and from R8 000 for the 80:20 and other combinations (Appendix A-3). This was due to the increase in the married woman's earnings allowance. The taxes payable decreased as the split increased in the wife's favour and as the taxable income increased.

This was unlike previous years, where taxes were the same in most instances, irrespective of the income combination, from 80:20. Here, from R10 000 taxable income the 0:100 combination paid less tax than the other combinations so that with a taxable income of R200 000 the married couple paid tax of between R85 367 (100:0 ratio) and R66 367 (0:100 ratio), thus a maximum possible difference of R19 000 in taxes payable. The wife did not pay this tax if she was the only breadwinner or if her husband earned R10 000 or less. She then paid the R85 538 referred to for the (100:0) split as she was then a married person and forfeited the section 20A allowance.

The 20 per cent tax exemption for married women was an attempt to neutralize the fact that her income was taxed at the husband's marginal tax rates. The question here was, was it fair, or horizontally equitable that in two households where both the husband and the wife worked and earned the same total taxable income, there could be differences as big as R11 400 in the taxes payable by them? This applied for a combined taxable income of R200 000 earned in the ratio 80:20 (husband earning the bigger proportion), with total taxes of R81 567 payable and in the ratio 20:80 (the wife earning the bigger proportion) with total taxes of R70 167 payable.



(Extracted from Appendix B-3)

What appeared to be even more unfair was the fact that where the household had only one breadwinner (either the 100:0 ratio or the 0:100 ratio) there was more than R15 000 additional tax where the breadwinner also had to support the other spouse.

Thus, although the percentage married woman's earnings allowance did contribute to greater horizontal equity in certain instances, it

created inequities in other instances. If the 20 per cent allowance was ignored, the effect of the other tax legislation amendments could be better judged.

If the married woman's earnings allowance remained the same as it was in 1986, but the rest of the 1986 tax amendments (for the 1987 year of assessment) were applied to the calculation of the taxation, the following table would reflect the taxes payable. The table makes it clear just how big a difference the 20 per cent married woman's earnings allowance made for the double-breadwinner married couple, especially in the higher income groups.

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1987 IF MARRIED WOMAN'S EARNINGS ALLOWANCE WAS TAKEN AT 1986 RATES, THAT IS AT A FLAT RATE OF R1600

Taxable Income	Married Couple					Unmarried Person
	100:0	80:20	50:50	20:80	0:100	
R	R	R	R	R	R	R
10 000	609	366	366	366	366	876
20 000	2 703	2 278	2 278	2 278	2 278	3 335
30 000	5 905	5 327	5 327	5 327	5 327	6 926
40 000	9 951	9 267	9 267	9 267	9 267	11 285
50 000	14 318	13 619	13 619	13 619	13 619	16 012
100 000	37 867	37 107	37 107	37 107	37 107	39 762
150 000	61 617	60 857	60 857	60 857	60 857	63 512
200 000	85 367	84 607	84 607	84 607	84 607	87 262

Comparing the two tables for the 1987 year of assessment indicated that, for the 0:100 combination, even for a joint income of R10 000 there was a difference of R60, simply as a result of the effect of the increased married woman's earnings allowance. For the same combination and for the R20 000 joint income it was almost R600 less tax payable as a result of the allowance, R2 608 on R40 000 joint income and so on until the difference of R18 240 on a taxable joint income of R200 000 (that is, more than 9 per cent). For the 80:20

combination and a joint income of R200 000, the difference in the tax payable was only R3 040 (almost 1,5 per cent), for the 50:50 combination and a joint income of R200 000, it was R8 740 less tax (almost 4,5 per cent on R200 000) and for the 20:80 combination, it was almost 7 per cent less tax. The increased allowance certainly made a difference to the taxes payable by the married woman, but her income was still taxed in her husband's hands. This could be seen as another attempt at making the taxation of individuals horizontally more equitable and it decreased the heavy load carried by joint breadwinners by effectively lowering the maximum rate at which the wife's earnings were taxed. Note that for a taxable income of R9 000 the taxes payable were identical for the married couple, irrespective of the income combination (Appendix A-3). This was because the 20 per cent married woman's earnings allowance equalled the minimum allowance of R1 800 at that level.

If the 20 per cent allowance was ignored there were no great differences in the taxes payable between the different income combinations and there was only R760 (for a taxable income of R200 000) more tax payable by the one-breadwinner spouse in the 100:0 category compared with the 0:100 category. It was not fair that the 100:0 category married couple paid more than other married couples, but this disparity increased substantially as a result of the effect of the 20 per cent allowance. The inequity between the husband-breadwinner couple and other couples increased as a result of the introduction of the 20 per cent allowance.

The effective tax rates for the unmarried individual were at a maximum (for a taxable income of R200 000) of 43,63 per cent and for the married couple with an income combination of 100:0, 42,68 per cent, for 80:20, 40,78 per cent, for 50:50 only 37,93 per cent and for 0:100 a mere 33,18 per cent.

The highest effective rate overall applied to the unmarried individual, although that for the married couple, with the husband as breadwinner, was close to it. The lowest effective rate (for the

R200 000 taxable income group) was only 33,2 per cent for the 0:100 combination compared with the almost 10 per cent more for the 100:0 combination. The married woman thus effectively paid 10,4 per cent less tax on R200 000 than the unmarried person and 9,5 per cent less than the married person. This also indicated horizontal inequity, as both married women and married men in the 0:100 and 100:0 combinations respectively supported the other spouse.

If the 20 per cent married woman's earnings allowance was ignored the equity between the married couple and the unmarried person could also be noted. With reference to the above table it appeared that there was a measure of horizontal equity. The unmarried person paid 2,7 per cent more tax than the single breadwinner (100:0 combination) and 5,7 per cent more where the wife earned all the income for a taxable income of R10 000. The difference was the largest between the breadwinner wife and the unmarried person for incomes up to R50 000. The unmarried person and husband-as-breadwinner paid almost the same taxes and the marginal rates there were within 4 per cent of each other. This was unfair towards the 100:0 combination as it implied that supporting a wife with no income, cost very little.

To summarize, 1987 saw one of the most drastic changes to the taxation of individuals as it affected the horizontal equity between them. Where, previously, the married couple could only benefit to a maximum of R1 600 if the wife earned an income, now 20 per cent of her income was tax-free. Although this seemed fair as she was taxed at her husband's top marginal rates, no such relief existed for the one-breadwinner couple with exactly the same basic needs. Although the unmarried person paid more tax than the married person, the differences in tax payable depended on the combination in which the married couple earned their taxable income. The differences had a range of almost R20 000 and it was not fair to tax one individual earning the same taxable income as another economic unit at such a high rate. The effect of the 20 per cent woman's earnings allowance created horizontal inequities between the married couples, depending on their income combinations and between the married couple and the

unmarried person. The highest effective tax rate was 43,6 per cent for the unmarried person who earned a taxable income of R200 000.

6.3.4 THE 1988 YEAR OF ASSESSMENT

The rebates increased during the year of assessment to a primary rebate of R920 plus an insurance rebate of R30 for the married couple and a primary rebate of R650 plus an insurance rebate of R25 for the unmarried taxpayer. The married woman's earnings allowance also increased to R2 250 or 22,5 per cent of her earnings, whichever was the greater. The unmarried person started paying tax at an income of R5 000 whereas the married couple started paying tax at R7 000 for an income combination of 100:0 and only at R9 000 for an 80:20 combination. These tax thresholds were all higher than in previous years. The married woman's earnings allowance made the tax thresholds higher for those income combinations where she contributed to the joint income.

Up to an income of R11 000, the taxes were the same irrespective of the combination in which the married couple earned their income, for a 70:30 to a 0:100 combination. From R11 000 onwards the 0:100 combination paid less tax than the other combinations (Appendix A-4).

For the same taxable income (for example R30 000), the married couple paid tax varying between R5 702 (100:0 combination) and R3 866 (80:20 combination), which amounted to tax calculated at a rate of 6 per cent lower on that taxable income, or only 68 per cent of the tax payable for the 100:0 combination. The 0:100 combination paid R2 247 less tax, which amounted to tax calculated at a rate of 7,5 per cent lower on that taxable income and only 60 per cent of tax paid for the 100:0 combination. The unmarried taxpayer paid R1 063 more tax than the married couple with the 100:0 combination and almost double the amount the married couple would have paid with the 0:100 combination. For a

taxable income of R200 000 the difference in tax paid between the 100:0 combination and the 0:100 combination was R20 250 or 25 per cent less, whereas the unmarried person paid R83 015 tax, which was only R1 790 more than the married couple for the 100:0 combination.

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1988

(Refer Appendix A-4)

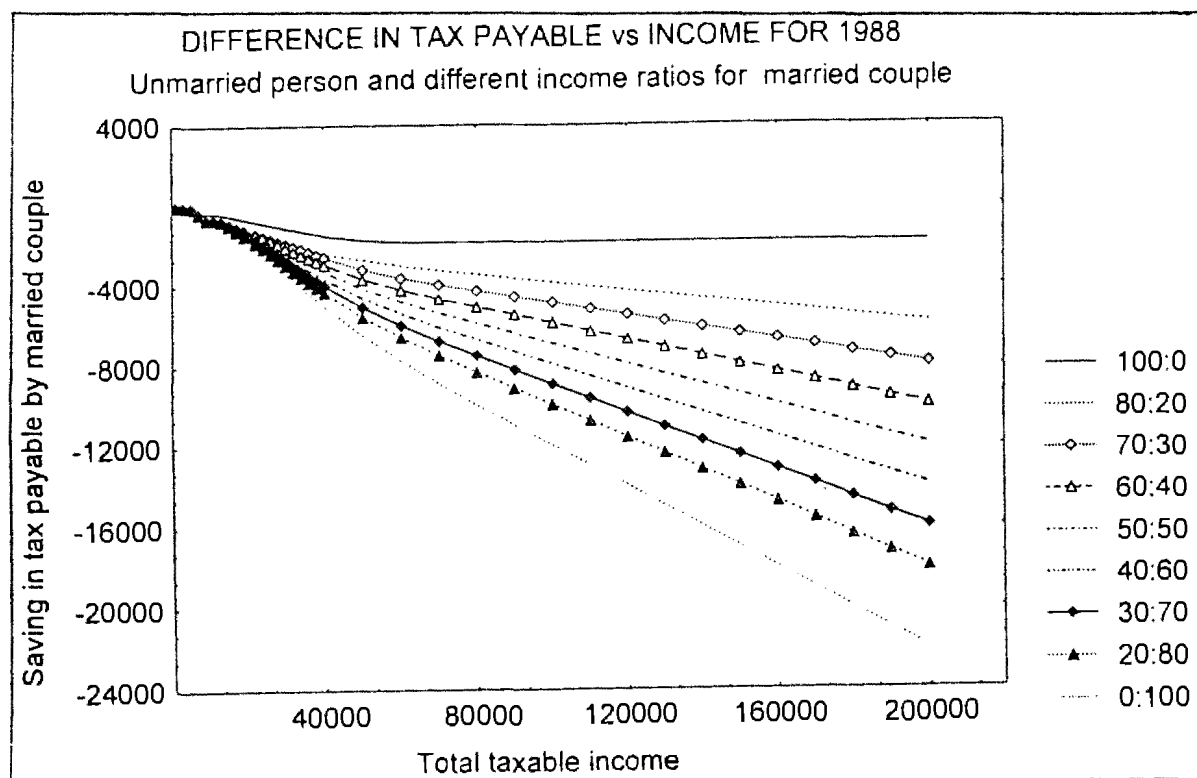
TAXES PAYABLE - 1988

Taxable Income	Married Couple				Unmarried	
	100:0	80:20	50:50	20:80	0:100	Person
R	R	R	R	R	R	R
10 000	505	205	168	168	168	795
20 000	2 532	1 958	1 958	1 634	1 434	3 185
30 000	5 702	4 903	4 520	3 866	3 455	6 765
40 000	9 590	8 690	7 790	6 760	6 076	11 037
50 000	13 831	12 863	11 421	10 004	9 090	15 515
100 000	36 225	34 200	31 163	28 125	26 100	38 015
150 000	58 725	55 687	51 131	46 575	43 538	60 515
200 000	81 225	77 175	71 100	65 025	60 975	83 015

Differences for the 100:0 combination varied from R45 more tax paid by the unmarried taxpayer at R5 000, where the husband breadwinner did not pay any tax, to R1 790 more from R70 000 taxable income right through to R200 000. For the 0:100 split it varied from R45 upward to R22 040 more. This meant that a married couple who earned R200 000 could, depending upon the split of their income, pay up to R16 000 less tax than another couple and up to R22 040 less tax than an unmarried taxpayer. This was directly as a result of the increased wife's earnings allowance which meant that a married woman could earn up to 22,5 per cent of her income tax free. (Appendix B-4)

Although less tax was paid by a double income couple, the couple where the husband was the sole breadwinner was the worst off and this remained a problem. The discrepancy that was first noted in 1987, with the introduction of the 20 per cent married woman's earnings

allowance, was increased further in 1988 with the increase of the percentage to 22,5 per cent.



(Extracted from Appendix B-4)

It was also horizontally inequitable that an unmarried person paid, from a taxable income of R30 000 and upwards, more than 11 per cent more tax than the breadwinner wife (0:100 combination) and almost 9 per cent (R200 000 taxable income) more tax than the husband as breadwinner with the other married-couple income combinations in between. The horizontal inequities had been transferred from the double-earner couple to the husband as breadwinner and in 1988 these inequities increased.

6.3.5 THE 1989 YEAR OF ASSESSMENT

In 1989 the married couple enjoyed an additional relief from tax with the introduction of the joint assessment allowance which, in addition to the married woman's earnings allowance, was a deduction from taxable income of a percentage of the married woman's earnings based on a complicated formula, which diminished if the wife's earnings were more than R16 000. This allowance gave relief only to married couples earning more than a joint taxable income of R30 000 and only if the wife also had earnings.

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1989

(Refer Appendix A-5)

TAXES PAYABLE - 1989

Taxable Income	Married Couple					Unmarried Person
	100:0	80:20	50:50	20:80	0:100	
R	R	R	R	R	R	R
10 000	300	20	NIL	NIL	NIL	650
20 000	2 260	1 702	1 702	1 392	1 195	2 970
30 000	5 360	4 379	4 008	3 541	3 162	6 470
40 000	9 160	7 609	6 063	5 715	5 508	10 610
50 000	13 260	11 384	9 324	8 906	8 633	14 910
100 000	35 160	31 042	30 052	27 060	25 060	37 370
150 000	57 660	53 182	50 066	45 510	42 472	59 870
200 000	80 160	75 367	70 035	63 960	59 910	82 370

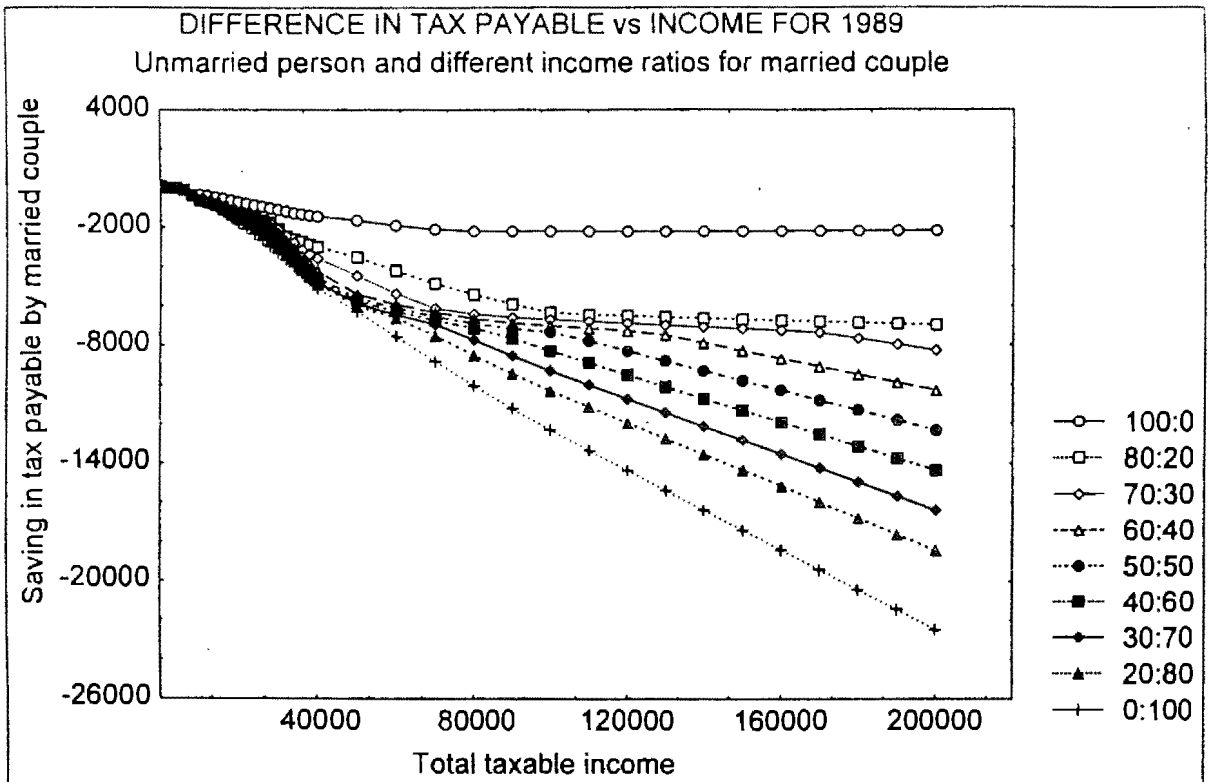
The joint assessment allowance had the following impact:

- For the 100:0 combination, no wife's earnings allowance or joint assessment allowance was calculated and the one-breadwinner family paid more tax than any of the other income combinations, as was the case in all the other years.

- For the 80:20 combination, the joint assessment allowance operated from a joint income of R30 000 to a joint income of R110 000 from where it was reduced (wife's earnings of more than R16 000) and at a joint income of R200 000 it was a mere R1 650.
- For the 70:30 combination, the joint assessment allowance was reduced from a joint income of R70 000 up to R170 000 where it amounted to nil.
- The 60:40 combination only benefited from a joint income of R30 000 to R50 000 from where the joint assessment allowance reduced to a nil allowance at a joint income of R130 000.
- The benefit was watered down the higher the wife's contribution to the joint income rose, so that with a 50:50 contribution the advantage reduced from a joint income of R50 000 and amounted to nil at a joint income of R110 000.

This was a very complicated calculation to provide at best R4 650 relief from tax for the married couple and mostly assisting those earning more than R30 000 jointly. Together with the married woman's earnings allowance which exempted up to 22,5 per cent of her income from tax, this added up to significant tax relief for the married couple.

The unmarried taxpayer started paying tax at a taxable income of R6 000, whereas the married couple only paid tax at R8 000 for an income combination of 100:0 and then only R20 tax. From the 70:30 combination the married couple only paid R125 tax at a taxable income of R11 000 and this decreased to R93 for the 0:100 combination. (Appendix A-5) The married woman's earnings allowance and the joint assessment allowance raised the tax thresholds from the previous year from the 70:30 to the 0:100 combination.



(Extracted from Appendix B-5)

At the maximum end of the scale, that is at a taxable income of R200 000, the unmarried person paid R82 370 (an average rate of 41 per cent) and the married couple paid from R80 160 (40%) with the husband as sole breadwinner, to R68 010 (34%) for the 60:40 combination, R65 985 (33%) for the 30:70 combination, R63 960 (32%) for the 20:80 combination and only R59 910 (30%) where the wife was the breadwinner. This meant a difference of R22 460 between the unmarried taxpayer and the breadwinner wife - 11 per cent more tax payable by the unmarried taxpayer than by the married couple. This was a significant difference and 11 per cent could be considered a material difference even though the unmarried taxpayer only had himself or herself to support. The 1 per cent average tax difference between the husband-as-breadwinner and the unmarried taxpayer could, on the other hand, be seen as too small a difference to make up for the support of at least a spouse.

The introduction of further relief to the married couple in 1989 caused even further discrepancies in horizontal equity. A married couple who earned a taxable income of R200 000 in a 20:80 combination

paid more than R16 000 less tax than where only one of them was a breadwinner. The unmarried individual and the one-breadwinner couple paid almost the same tax on the income of R200 000, whereas the single breadwinner also supported a spouse. As in the previous two years, 1989 tax legislation increased differences in equity between married couples with two breadwinners and those with only one. The differences between the tax payable by the unmarried taxpayer and the different income combinations of the married couple had the same inequities as in the previous two years, but these increased in 1989 as a result of the joint assessment allowance.

6.3.6 THE 1990 YEAR OF ASSESSMENT

The married woman's earnings allowance and the joint assessment allowance was still in force for the 1990 year of assessment but, as the wife paid Standard Income Tax on Employees (SITE) on all her earnings which constituted remuneration as defined in paragraph 11B of the Fourth Schedule of the Act, and the allowances were only applicable to income which was included in her husband's taxable income (which did not include any income subject to SITE), the allowances were no longer used in the calculations.

All of the wife's earnings that were from net remuneration were taxed separately from her husband for the first time and, in terms of section 7(2) of the Act, only income earned by the wife "other than net remuneration as defined in paragraph 11B of the Fourth Schedule" were added to the husband's income and were subject to the allowances in section 20A.

SITE was a final tax deducted by the employer and paid over to the Receiver without the need for the taxpayer to submit a tax return. It was payable on net remuneration ("any amount of income which is paid or is payable to any person by way of any salary, leave pay,

allowance, wage, overtime pay, bonus, gratuity, commission, fee, emolument, pension, superannuation allowance" [and so forth] (par 1, Fourth Schedule of the Act) including annuities and taxable benefits and excluding amounts not derived from standard employment or annuities from pension or retirement annuity funds, amounts which, if the taxpayer had incurred expenditure in earning that amount that exceeded 1 per cent of such amount, amounts subject to the rating formula, and the income of the married woman where her husband earned R7 500 or less during a year of assessment (Par 11B, Fourth Schedule of the Act)).

This was also the first time that the married woman had her own tax tables providing for a rate of tax of 25 per cent on taxable income up to R20 000 and thereafter according to the tables on taxable income up to R40 000, after which the rate became 38 per cent. The married woman's maximum marginal rate was therefore 38 per cent, which was 7 per cent lower than the maximum marginal rate for the other two taxpayer categories who, at taxable incomes of R80 000 and R54 000 respectively, paid 45 per cent. The rebates were R1 250 for a married person, R850 for an unmarried person and R1 075 for a married woman.

An unmarried individual started paying tax at a taxable income of R7 000 whereas the married woman started at a joint taxable income of R11 000 (60:40 combination) and at R9 000 (50:50 combination). The married man started paying tax at a taxable income of R9 000 for the sole breadwinner group and only at R12 000 (total combined income) for the 80:20 combination with the wife paying only from a total taxable income of R22 000 for that combination. At the 50:50 income combination, the married woman paid tax sooner than her husband who only started at double the taxable income at which she started paying tax, namely at a joint taxable income of R18 000, whereas she would pay from R4 500 (50 per cent of R9 000 joint taxable income and that tax amounted to 25 per cent of R4 500 = R1 075). At a combined taxable income of R190 000, the married man paid R32 760 and the married woman R30 085, that is R2 675 less tax than her husband. (Appendix A-6)

From 1990 it was possible for the first time to compare the taxes payable by the individual members of the married couple and to compare these taxes with the taxes payable by an unmarried person.

The married woman paid more tax than her husband up to a combined taxable income of R140 000 (husband R21 610 tax, wife R21 725 tax) and from there the maximum marginal rates applied so that at a combined taxable income of R160 000, the husband paid R26 010 tax on his R50 000 taxable income and the wife paid R25 525 tax (See the following table).

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1990

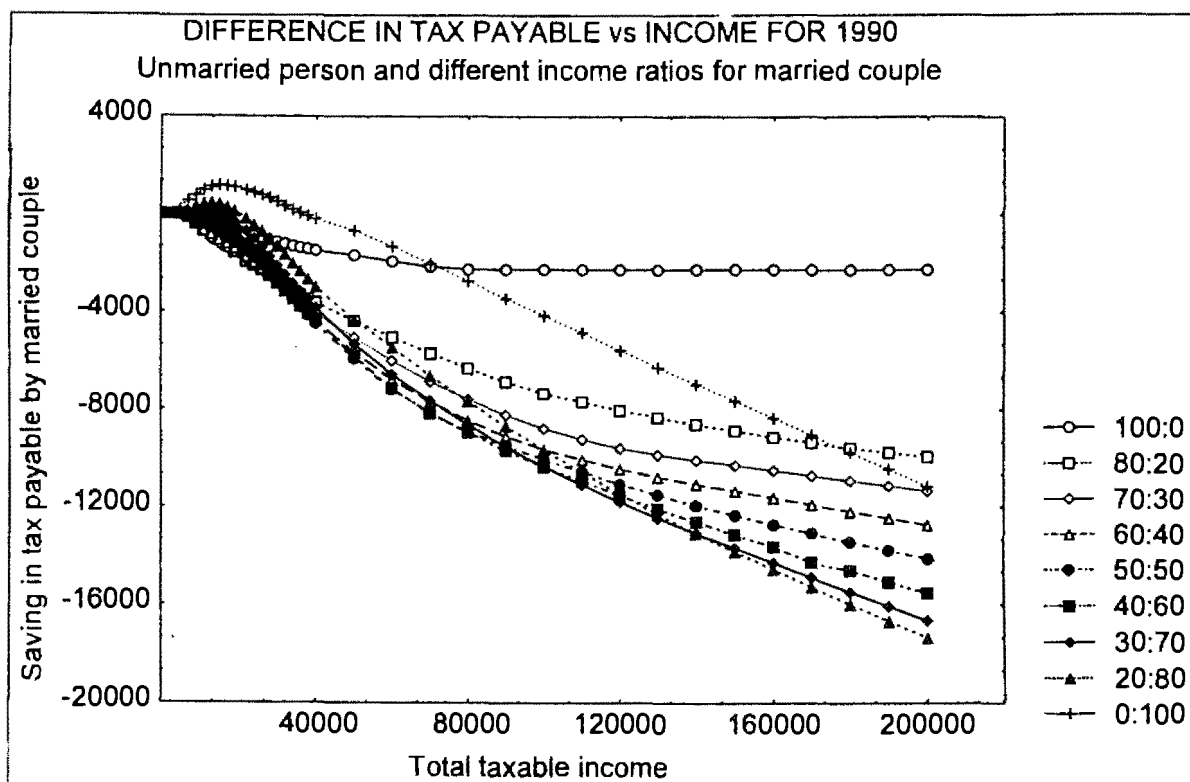
(Refer Appendix A-6)

TAXES PAYABLE - 1990

Taxable income	Unmarried person	Married man 100:0	Married woman 0:100
R	R	R	R
5 000	Nil	Nil	175
7 000	130	Nil	675
8 000	270	Nil	925
9 000	410	10	1 175
10 000	550	150	1 425
15 000	1 500	940	2 675
20 000	2 870	2 110	3 925
30 000	6 370	5 210	6 885
40 000	10 510	9 010	10 325
50 000	14 810	13 110	14 125
60 000	19 270	17 310	17 925
70 000	23 770	21 610	21 725
80 000	28 270	26 010	25 525
90 000	32 770	30 510	29 325
100 000	37 270	35 010	33 125

Thus, although the married woman started paying tax sooner than the other taxpayer-categories, from approximately R40 000 (her maximum

marginal tax rate applied from here), she paid less tax (at an effective rate of 33 per cent) than the unmarried person (37%) and the married person (35%) at a taxable income of R100 000. This could be considered to be unfair as the married woman's husband helped to contribute towards her living expenses and she was dealt with most favourably at the higher incomes.



(Extracted from Appendix B-6)

There was a steady increase in differences between the taxes paid by married and unmarried taxpayers. The difference remained constant at R2 260 between the tax paid by the unmarried taxpayer and the tax paid by the married couple, from taxable incomes ranging between R80 000 and R200 000 for the 100:0 combination of income for the married couple. This was expected as the tax rates and rebates remained constant from where the maximum marginal rate was applied (R80 000 for the married person).

The taxation for all the other income combinations of the married couple were considerably lower than the taxation for the 100:0

combination. The greater the proportion of the wife's earnings became, the greater the difference in tax paid by the married couple and the unmarried person. For a joint taxable income of R200 000 the married couple paid R71 195 tax for an 80:20 income combination and R71 125 for a 0:100 combination, but only R64 935 tax for an income combination of 20:80.

The two one-breadwinner combinations were worse off in terms of taxation payable than all the married-couple combinations, paying almost as much tax as the unmarried taxpayer. This was unfair as, of all the combinations of income of the married couple, the single breadwinners supported a spouse on his or her income, or was an unmarried parent with children who qualified for the child rebate. The other income combinations all had two breadwinners supporting the household. The married woman as single breadwinner paid almost as much tax as the 80:20 combination and she had to support a husband. Clearly, (see the above graph) the income combinations for married couples with two breadwinners presented differences from the tax paid by the unmarried person that were all close together and the only graph lines far from the others were the 100:0 and 0:100 combinations. One-breadwinner couples were not treated equitably.

As far as wives who earned salaried income were concerned, they were treated more equitably in 1990, with the introduction of SITE, than previously. The married woman was now separately taxed. But there was no equity for married women who earned up to almost R20 000 annually, as they paid more tax than even the unmarried taxpayer.

The unmarried person was treated inequitably only when his or her taxation was compared with the taxation of the double-breadwinner couples and the taxation of the married woman as breadwinner for taxable incomes above R80 000. With separate taxation of husband and wife, the inequities shifted towards the single breadwinners as the group treated most unfairly. As long as differences in tax paid ranged as widely as those shown in the graph above, there was no horizontal equity. While certain differences were expected these

should present a graph of lines close to each other and not ranging from R2 260 to R17 335 for a married couple where the breadwinner had at least two persons to support.

6.3.7 THE 1991 YEAR OF ASSESSMENT

With the passing of the 1990 Income Tax Act, we are but one step away from the complete taxation of married women separately from their husbands. Section 7(2), which in its original form deemed all the income of a married woman to be her husband's, has been gradually whittled down.

(The taxation of married women 1990:102)

The wife was taxed separately except for

- income derived by her otherwise than from any trade (which by definition included salaried income); or
- from trade income earned from her husband that was excessive or unreasonable; or
- (at her option) if her husband earned gross income amounting to R10 000 or less, from all sources.

(Section 7(2) of the Act).

From the 1991 year of assessment a drastic reduction in tax rates began. The unmarried person started paying tax on an income of R11 000 only, that tax being R150, whereas the married couple paid from a taxable income of R13 000 only (R200 tax at a 100:0 combination) and for other income combinations only from R16 000.

Previously, the second proviso to section 18 of the Act allowed the husband to deduct medical expenses incurred by his wife. From the 1991 year of assessment the married woman was allowed to deduct all the medical expenses incurred and paid by her, subject to the limitations imposed in section 18. These limitations applied to both

the unmarried and the married person. The husband still deducted the expenses incurred by himself even if the expense was in respect of his wife, provided he paid for it.

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1991

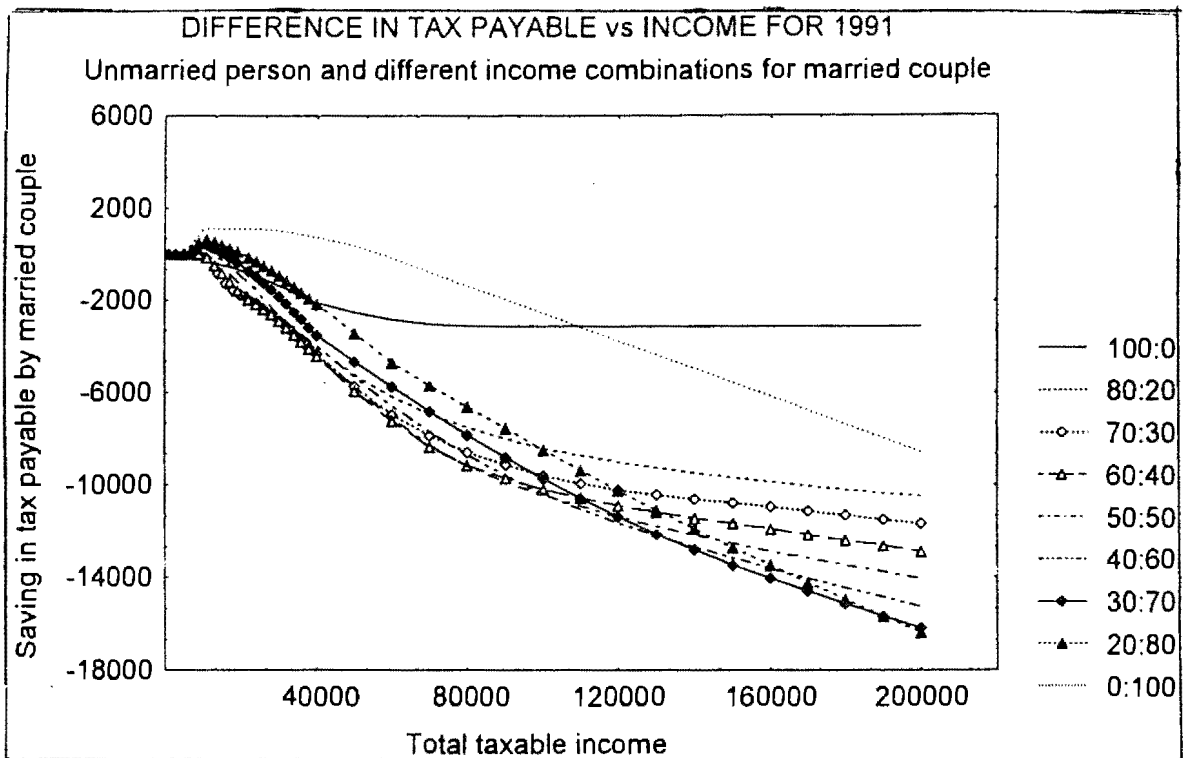
(Refer Appendix A-7)

TAXES PAYABLE - 1991

Taxable income	Unmarried person	Married man 100:0	Married woman 0:100
R	R	R	R
5 000	Nil	Nil	80
7 000	Nil	Nil	440
8 000	Nil	Nil	620
9 000	Nil	Nil	830
10 000	Nil	Nil	1 040
15 000	1 080	600	2 180
20 000	2 400	1 700	3 500
30 000	5 640	4 250	6 660
40 000	9 520	7 400	10 260
50 000	13 700	11 150	14 060
60 000	18 040	15 200	17 860
70 000	22 440	19 400	21 660
80 000	26 840	23 700	25 460
90 000	31 240	28 100	29 260
100 000	35 640	32 500	33 060

It is clear from the above table that taxes had decreased in general from the previous year, but for the married woman taxes increased substantially and she started paying tax sooner than any of the other taxpayers - the unmarried taxpayer paid tax from a taxable income of R11 000 only, whereas the married person paid from R13 000 only. She did, however, do better in the higher income groups where, from R60 000 upwards, she paid less tax than the unmarried person as she had a lower maximum marginal tax rate than the other categories. (That is, the effective tax rate for an unmarried person at a taxable income

of R60 000 was 30 per cent, a married person 25,3 per cent and a married woman 29,7 per cent, whereas at a taxable income of R50 000 they paid 27 per cent, 22 per cent and 28 per cent tax respectively.)



(Extracted from Appendix B-7)

As far as the combined tax of the married couple was concerned, they still paid less tax in general, but how much less depended on the combination of their income. Up to the 60:40 income combination it was advantageous, but then decreased drastically with the higher taxes levied on wives. A major reason for this was the fact that the rebate for a married woman was drastically reduced from R1 075 to a mere R700, whereas the primary rebate for an unmarried person was increased from R850 to R1 000 and for the married man from R1 250 to R2 100. There was a big change in tax paid from the 100:0 to 80:20 combinations and from the 20:80 to 0:100 combinations. Married couples with only one working spouse, paid the most tax and the 0:100 combination paid even more tax than the unmarried person and, up to a taxable income of almost R110 000, this combination also paid more tax than the 100:0 combination.

Although this study did not consider the effect of the child rebates, the following thresholds clearly show the difference that the child rebates could have had on the final tax paid. A married person with no children paid tax on earnings from R12 001 while his counterpart with six children only paid tax on earnings from R15 227.

The tax thresholds, as set out in the Income Tax Reporter (New legislation 1990:228), for 1990 and 1991 were as follows:

	<u>1991</u>	<u>1990</u>
Unmarried taxpayer	R10 286	R6 071
Married woman	R4 556	R4 300
Married person	R12 001	R8 928
Married - one child	R12 500	R9 642
- six children	R15 227	R13 411

In the 1991 year of assessment the married woman was taxed in her own right for the first time and this showed clearly that separate taxation would not be the tax heaven that the double-earner married couples thought it would be. The tax thresholds were higher than those in the previous year, but the married woman was still approximately R6 000 worse off than the unmarried person and approximately R7 500 worse off than her spouse.

Compared with the unmarried person, the married couple paid more tax in the lower income groups (from the 50:50 combination to the 0:100 combination). This meant that the household's tax for the married couple for the different combinations and up to the following joint incomes was more than the unmarried person's tax:

<u>Combination</u>	<u>Joint Income</u>
50:50	R11 000
40:60	R12 000
30:70	R15 000
20:80	R20 000
0:100	R50 000

This did not represent horizontal equity. A one-person household (as the unmarried person is assumed to have had for the purposes of this study) paid less tax than the two-person household where the wife earned the bulk of the income or where husband and wife contributed equally to the joint income. The income combinations from 80:20 to 60:40 paid less tax than the unmarried person and an increasing amount less, the higher the taxable income. With the married person as single breadwinner (the 100:0 combination), the difference in tax paid between him and the unmarried person remained a constant R3 140 from a joint income of R80 000 and upwards (the maximum marginal rate of the married person was applicable from here).

The above graph clearly showed that the differences in tax paid between the married couple and the unmarried person for a taxable income of R200 000 ranged from as much as R16 380 (20:80) to only R3 140 (for 100:0) and R8 580 (for 0:100). Although the 0:100 combination approached the same level as the other graphs for double income combinations for the married couple, it was only for very high combined incomes close to R200 000. The inequity suffered by the unmarried person resulted from the fact that the married couple could pay so many different levels of tax depending on the combination of their income. The clear inequity would be towards the single breadwinners compared with the double-income married couples.

6.3.8 THE 1992 YEAR OF ASSESSMENT

There was a drastic reduction in taxation paid for the 1992 year of assessment. The unmarried individual started paying tax at a taxable income of R11 000 and the married couple with the husband as breadwinner only at R13 000 (R170 tax), and for the 80:20 combination only at R16 000 (R132 tax). The married woman's rebate increased by R100. The tax payable by married persons decreased from the previous year by R100 (on a taxable income of R20 000) to R900 (on a taxable

income of R100 000). The unmarried person paid R175 less tax on R20 000 taxable income, R575 less tax on R50 000 and R1 075 less tax on R100 000. (Appendix A-8).

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1992

(Refer Appendix A-8)

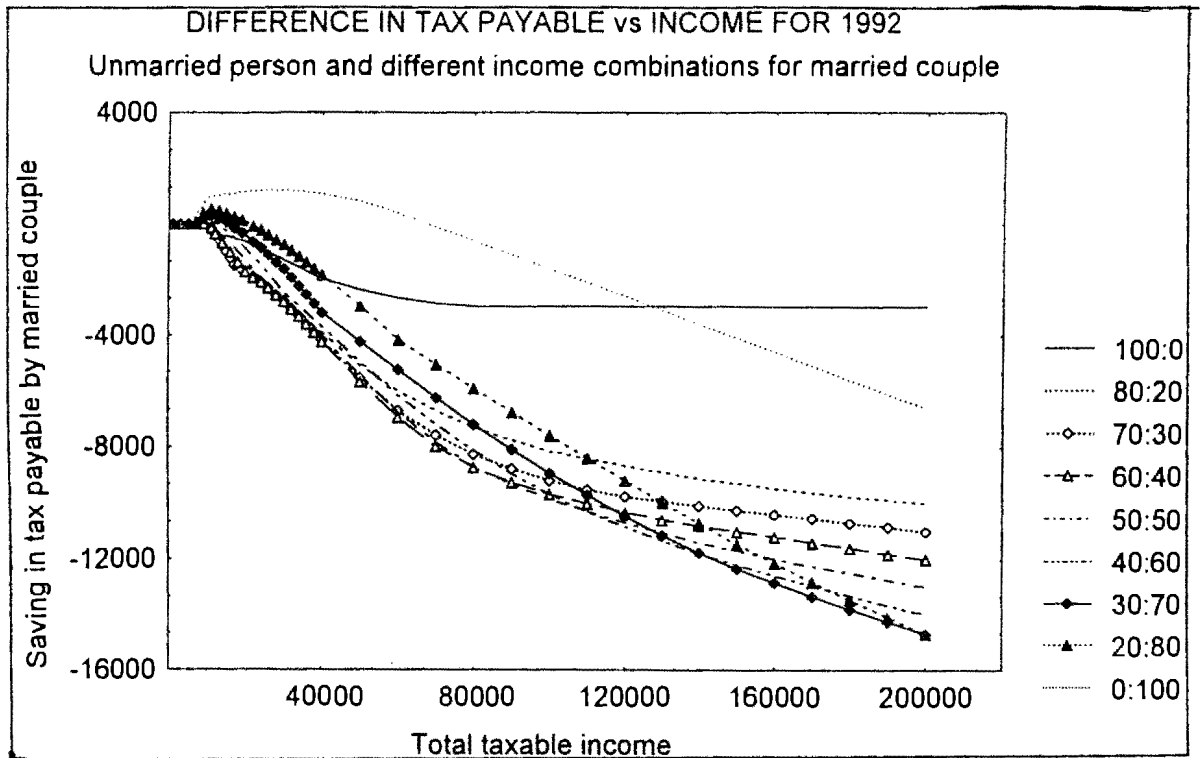
TAXES PAYABLE - 1992

Taxable income	Unmarried person	Married man 100:0	Married woman 0:100
R	R	R	R
5 000	Nil	Nil	Nil
7 000	Nil	Nil	340
8 000	Nil	Nil	520
9 000	Nil	Nil	730
10 000	Nil	Nil	940
15 000	975	550	2 080
20 000	2 225	1 600	3 400
30 000	5 325	4 050	6 560
40 000	9 075	7 100	10 160
50 000	13 125	10 750	13 960
60 000	17 365	14 700	17 760
70 000	21 665	18 800	21 560
80 000	25 965	23 000	25 360
90 000	30 265	27 300	29 160
100 000	34 565	31 600	32 960

The married couple did not always pay less tax than the unmarried individual. It depended on the taxable income combination. At lower taxable incomes and where the wife's earnings made the bigger contribution (from 40:60 onwards), the couple paid more tax than the unmarried individual.

The difference between the taxes payable by an unmarried taxpayer and by a married couple was at its highest where the couple's taxable income was earned in the 20:80 combination at a taxable income of

R200 000, namely R14 705 less tax for the couple than for the unmarried person. In the 100:0 combination R2 965 less tax and in the 0:100 combination, R6 605 less tax.



(Extracted from Appendix B-8)

For the 40:60 combination, the couple paid more tax than the unmarried person up to a taxable income of R13 000; for the 30:70 combination up to a taxable income of R15 000; for the 20:80 combination up to a taxable income of R20 000 and for the 0:100 combination more tax was paid by the couple up to a taxable income of R60 000. The reason for this was that the wife, although she paid tax sooner than the other categories, had a maximum marginal rate of only 38 per cent, whereas the unmarried person's marginal rate of 43 per cent was reached at a taxable income of R56 000. Married couples who earned between R5 000 and R50 000 were then at a disadvantage, depending on the combination of their incomes.

In 1992 the total taxes paid were marginally less than the previous year but comparisons for purposes of horizontal equity still showed inequities. With the lower taxable incomes, the married woman was clearly worse off than any of the other categories, but in the higher income groups the unmarried person paid more tax. Was it equitable that the married woman who earned a high taxable income, and who had a husband to help support her, should be subsidised by the unmarried person who provided for his or her livelihood alone?

6.3.9 THE 1993/1994/1995 YEARS OF ASSESSMENT

As there were no significant changes to the taxation of individuals and the calculation of taxes payable remained the same for the 1993 and 1994 years of assessment, both years of assessment are discussed here. The legislation for the taxation of individuals for the 1995 year of assessment was not amended and individuals were taxed on the same principles as in the 1993 and 1994 years of assessment. The only change in the 1995 year of assessment was the introduction of the transition levy of 5 per cent on the taxable income above R50 000 for married persons and unmarried persons, and above R175 000 for married women. This concession to married women made it clear that the legislation (until the 1995 amending act) considered the levy to be paid by the married person on behalf of the household and the married woman was only liable for this levy when she herself earned a very high income. As this levy applied only to the 1995 and 1996 years of assessment, and as it could distort the conclusions drawn on the trend in the taxation legislation, the impact of the levy was not quantified and the 1993 calculations were considered to be applicable to the 1995 year of assessment as well.

Although the maximum marginal rate remained at 43 per cent for married and unmarried persons, the bands in the tax rate tables were adjusted and the number of bands reduced for the 1993 year of assessment. There were then only ten bands for the married person; nine for

unmarried persons and eight for married women. The tax thresholds increased as follows, according to the Coopers Theron Du Toit Tax News::

	<u>1991/2</u>	<u>1992/3</u>
	R	R
For the married person (under 63)	12 106	12 501
For the unmarried person	10 358	10 715
For the married woman	5 112	5 264

(10 April 1992:7)

From the above it was clear that the married woman paid tax sooner than any of the other categories, although her maximum marginal rate was 3 per cent lower than that of the other categories.

The maximum marginal rate for the married woman increased from 38 per cent to 40 per cent and the level of taxable income to which this applied increased from R40 000 to R50 000. All the primary rebates were increased (by R225 for a married person to R2 225, by R325 for an unmarried person to R1 950 and by R100 for a married woman to R900).

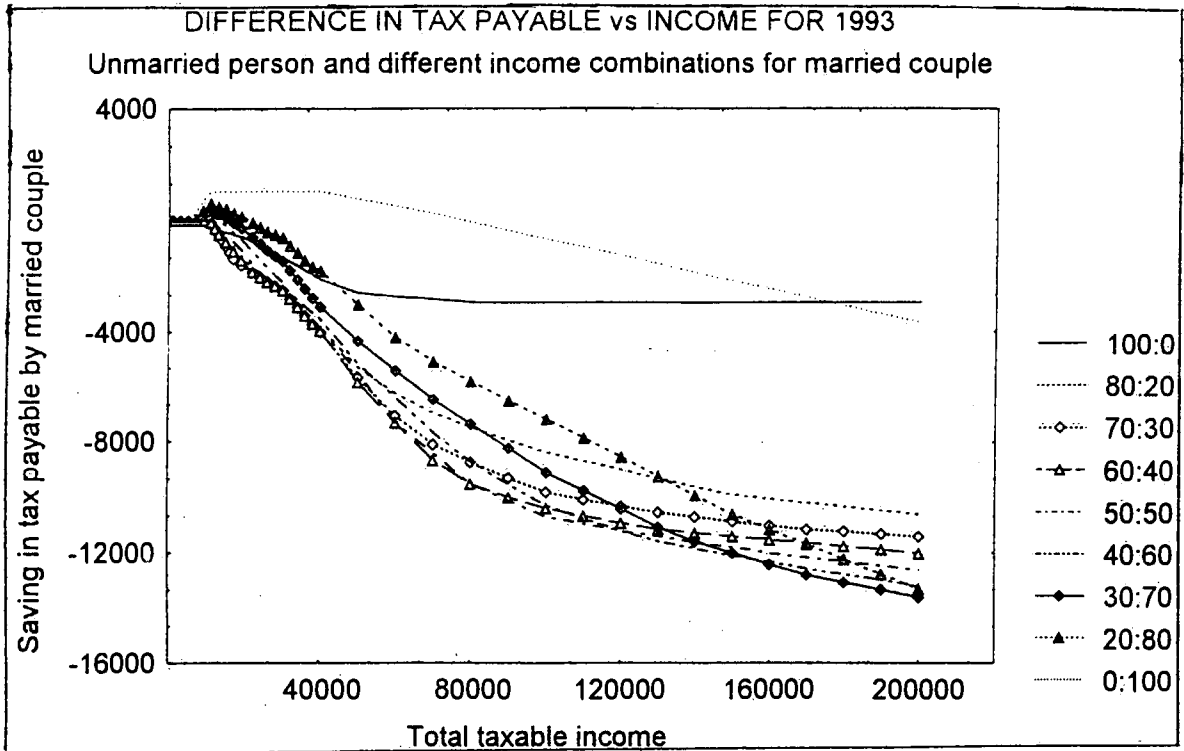
From the table below, when compared with the table in paragraph 6.3.8 (from Appendix A-8) a general, albeit very small, decrease in tax payable from the previous year was seen: for the married man R500 less tax on a taxable income of R90 000 but only R75 less on a taxable income of R15 000; on a taxable income of R30 000 a decrease of R425 and on R50 000 a decrease of R525 - the highest decrease just before the maximum marginal rate was reached.

The taxes payable by the different categories were as follows:

TABLE SUMMARISING TAXES PAYABLE BY INDIVIDUALS IN 1993(Refer Appendix A-9)TAXES PAYABLE - 1993/94

Taxable income	Unmarried person	Married man 100:0	Married woman 0:100
R	R	R	R
5 000	Nil	Nil	Nil
7 000	Nil	Nil	330
8 000	Nil	Nil	520
9 000	Nil	Nil	710
10 000	Nil	Nil	900
15 000	900	475	1 950
20 000	2 100	1 475	3 150
30 000	4 900	3 575	5 950
40 000	8 500	6 375	9 550
50 000	12 600	9 975	13 350
60 000	16 840	14 075	17 350
70 000	21 140	18 275	21 350
80 000	25 440	22 475	25 350
90 000	29 740	26 775	29 350
100 000	34 040	31 075	33 350

The table above indicated that, although the married woman paid tax on lower incomes than any of the other categories, her tax payable approached the same levels as the tax payable by the unmarried person. Above a taxable income of R70 000, where the unmarried person paid R21 240 and the married woman paid R21 350, she paid even less tax than the unmarried person. The tax rates for the married person remained the lowest throughout and, on a taxable income of R100 000, he paid three per cent less tax than the unmarried person and two per cent less tax than the married woman. These differences are illustrated in the following graph:



(Extracted from Appendix B-9)

The differences in taxes payable between the married couple and the unmarried person who earned the same taxable income, were the highest where the wife earned the greater part of the combined income (but not all of it): up to R13 615 less tax for the married couple than for the unmarried person for a taxable income of R200 000 and an income combination of 30:70; for an 80:20 combination it was R10 615 less and for the 100:0 combination only R2 965 less. The reason for this was that the total income was taxed in the husband's hands and mostly at the maximum marginal rate - the difference was due only to the fact that the married person's maximum marginal rate applied at a higher taxable income and he was entitled to a higher rebate.

Where the married woman earned "all" the income (the 0:100 combination), the "couple" paid more tax than the unmarried person up to a taxable income of almost R80 000 (the tables were drawn up using discrete intervals).

The graph above, indicated the differences between the taxes payable by the married couple and the unmarried person, and showed that for two-breadwinner married couples the differences were close together. This minimized the horizontal inequities. For single-earner married couples, however, the horizontal inequity had increased since the previous year, as the 100:0 and 0:100 income combinations were then even closer together and closer to the tax paid by the unmarried person. This did not represent horizontal equity as households with at least two occupants but only one breadwinner paid almost as much tax as those with only one occupant and more tax than two-breadwinner couples.

6.4 CHANGES IN HORIZONTAL EQUITY FROM 1985 TO 1995

6.4.1 CHANGES DURING THIS PERIOD

A drastic change that occurred was the gradual separation of the taxation of husband and wife so that, except for the instances referred to in section 7(2) of the Act, the wife became a taxpayer in her own right and was taxed separately. The main advantage was that certain of the problems mentioned in petitions to the Margo Commission (see Chapter 5) were then addressed. The married woman was now independently taxed and could maintain the privacy of her financial affairs. For two-breadwinner couples this meant that their total income was split between two people and therefore taxed at lower rates, and therefore they paid less tax in total.

The married woman, however, paid higher tax and her tax threshold was lower than that of the other two taxpaying categories - the unmarried person and the married person. She was also prevented from claiming the child rebate, and she only qualified for half the deduction for retirement annuity contributions if she did not have non-retirement funding employment income (in which case she could claim 15 per cent

thereof, as could the other taxpayers. Taxes payable by individuals changed over the decade as follows:

Taxable Income/ Year	<u>TAXES PAYABLE</u>			
	Unmarried	Married Couple		
	Person	100:0	50:50	0:100
	R	R	R	R
<u>R200 000</u>				
1985	93 622	91 720	90 920	90 920
1993	77 040	74 075	64 425	73 350
<u>R100 000</u>				
1985	43 622	41 720	40 920	40 920
1993	34 040	31 075	23 325	33 350
<u>R 50 000</u>				
1985	18 626	16 720	15 920	15 920
1993	12 600	9 975	7 075	13 350
<u>R 20 000</u>				
1985	4 093	3 294	2 782	2 782
1993	2 100	1 475	900	3 150

(Extracted from Appendices A-1,A-9)

Note that for the 50:50 and 0:100 combinations for 1985 the same taxes were payable by the married couple. The reason for this was that the only thing that influenced total taxes payable by the married couple was the married woman's earnings allowance and the same maximum allowance applied for both combinations.

As far as the 0:100 combination was concerned, contrary to the general tendency, the taxes payable for the 1993 year of assessment were higher than for the 1985 year of assessment for a taxable income of R20 000. The reason for this was that in 1985 the married person paid tax and the wife's earnings allowance was applicable, but in 1993 the married woman paid tax (that is, if her husband had other non-taxable income) and she paid tax sooner and also had a lower rebate than the other categories. From taxable incomes of R50 000 and upwards the

maximum marginal rate of the married woman was applicable and this was lower than the married person's maximum marginal rate in 1985.

For the married couple with the husband as only breadwinner, the joint tax was reduced from R91 720 in 1985 to R74 075 in 1993/1994 on a taxable income of R200 000. This was a parallel reduction, if compared with the reduction in the unmarried taxpayer's taxes during the period. In spite of the higher rates for the married woman and her low tax threshold and lower rebates, the changes were to the couple's advantage as the wife's income was no longer taxed at the husband's maximum marginal rates. The biggest decreases were for the 50:50 split, namely a decrease of almost 29 per cent for R200 000 joint income, nearly 18 per cent for R100 000 and for R50 000 and 9 per cent for R20 000. Even for the 100:0 split it was advantageous, except for the R20 000 income level.

Although the main concern here was horizontal equity and not lower taxes, the above table also served to illustrate that, in the areas where horizontal equity was previously the biggest problem in 1985 and earlier, namely the two-breadwinner couples and especially the 50:50 income combination and combinations close thereto. Here the taxes decreased for the married couple (for incomes below R100 000 and for the 50:50 combination the taxes were almost halved) and the horizontal inequities were less. While a certain reduction of taxes was expected, simply as a result of the continuing inflation, the comparative table showed that the decreases also reduced the inequities for two-breadwinner couples.

6.4.2 DIFFERENCES IN TAXES PAYABLE BY THE UNMARRIED PERSON AND THE MARRIED COUPLE

Differences between the taxes payable by the married couple and the unmarried person indicated horizontal equity or inequity and such

differences were calculated for the 1985 to 1993 years of assessment. The differences between taxes payable by the unmarried person and the married couple on the same taxable income from 1985 to 1993 are set out in Appendix B. The same combinations of income for the married couple were used as for the taxes calculated in Appendix A. Here, however, comparisons were only made between the following combinations: the 100:0, that is the husband/married person as breadwinner; the 50:50 where the husband and wife each contributed the same income to the joint taxable income; and the 0:100 combination where the entire taxable income was earned by the wife and, since 1990/1991 was taxed in her hands at the married woman's rates. These combinations showed the general trend over the period and were identified as the main problem areas with regard to horizontal equity.

The 0:100 combination (Appendix B-10)

The smallest differences arose for the 0:100 combination, that is the taxes payable by the married couple when all the income was earned by the wife and, recently, taxed in her hands. The tax payable by the married woman was almost the same as the taxes payable by the unmarried person on that income. For the lower income groups the married couple sometimes paid more tax than the unmarried person. The reason for this was that the married woman's tax threshold and primary rebate was lower than that of the unmarried person's.

The largest differences between taxes payable by the unmarried person and the married couple for the 0:100 combination, arose between 1988 and 1990 for the higher income groups (up to R22 460 less tax payable by the married couple on a taxable income of R200 000 in 1989). This was as a direct result of the high rate of the married woman's earnings allowance and the joint assessment allowance then applied. The joint assessment allowance, however, was reduced to nil at a joint income of R200 000 for the 0:100 combination - it did not even apply to incomes higher than R60 000 for this combination.

In 1985 the largest difference between the taxes payable by the married couple and the unmarried person was R2 702 on taxable incomes

between R50 000 and R200 000 and this was a constant difference. In 1986 and 1987 it was also a constant difference of R2 990 (1986) and R2 655 (1987) for taxable incomes of R70 000 or more. There was a giant leap in 1988 from the difference between taxes payable by the married couple and the unmarried person on a taxable income of R200 000 of R2 655 (1987) to R22 040, to R22 460 (1989) and to R21 135 (1990). This, however, reduced to R8 580 (1991), R6 605 (1992) and a maximum difference of only R3 690 for 1993 and 1994.

The differences during 1993 and 1994 indicated that the married woman (as a result of a lower maximum marginal tax rate than the unmarried person) paid only R3 690 less tax than the unmarried person on a taxable income of R200 000. This difference decreased to R90 for a taxable income of R80 000 and from there downwards the wife was at a disadvantage and R1 050 more tax was payable by the married couple/woman for a taxable income between R15 000 and R40 000 and R900 more tax payable on a taxable income of R10 000.

It was thus not advantageous for the married couple to be married, where there was a female-breadwinner earning less than R70 000, as she (they) would pay less tax if they were unmarried. It might be possible for the couple to choose aggregation and to be taxed as a married person. The tax paid by the married woman as breadwinner (when the couple's incomes were not aggregated) compared with the tax payable by the unmarried person was higher for the lower income groups up to R70 000. The taxation was more horizontally equitable than from 1988 to 1990, but not as equitable horizontally when compared with other income combinations.

The 50:50 combination (Appendix B-10)

Where both spouses contributed equally to the taxable income, the taxes payable by the married couple were then always lower than that paid by the unmarried person. The reason for this was that they were taxed separately and the maximum marginal rate then applied on a lower proportion of earnings. The differences between the taxes payable by the married couple and the unmarried person increased for the higher

income groups in later years directly as a result of separate taxation.

The taxes payable in 1993 by a married couple on a joint income of R200 000 amounted to R12 615 less than the tax payable by the unmarried person. The reason for this was that the husband and wife each paid tax on R100 000, whereas the unmarried person paid tax on R200 000. The differences were the lowest for 1985, 1986 and 1987, at R2 702, R2 990 and R2 655 respectively, all the differences being constant from a taxable income of R70 000.

The horizontal inequities for the double-earner married couple decreased considerably from 1985 and these couples were then treated more equitably, even too well when compared with single breadwinners. All double-earner couples paid less tax than single breadwinners and unmarried taxpayers.

The 100:0 combination (Appendix B-10)

For the 100:0 combination (where the married person, the husband, was the only taxpayer) there were no drastic increases and decreases in the differences between taxes paid by the unmarried person and the married couple. The largest difference was in 1991 at R3 140 for a taxable income from R70 000 (Appendix B-7). The differences were all discrete and remained the same from at least a taxable income of R80 000, and in some years, an even lower taxable income (1985 from a taxable income of R50 000, a difference of R1 902, 1986 from a taxable income of R70 000, of R2 134). No advantages were derived from the married woman's earnings allowance as the husband earned all the income and no allowance could be claimed.

In this combination the taxes payable by a married person (with the husband as sole breadwinner) and those payable by an unmarried person were compared and it was clear that there was not much difference between them, especially in the higher income groups. The married person consistently paid less tax than the unmarried person, but this was a one-breadwinner house and the husband would have to support a

wife (and family?) on the income, whereas the unmarried person supported only himself or herself. The inequity lay in the fact that other married couples, where both spouses earned income, paid considerably less tax.

Although the small differences indicated horizontal equity, it could not be said to be fair towards one-breadwinner families. What had improved though, was the tax treatment of two-breadwinner families, as the wife was taxed separately. The new system definitely operated to the advantage of the two-breadwinner family as the differences in tax payable between the married couple and the unmarried person were larger. For example, for the 50:50 taxable income combination for the couple, the difference was greater from 1988 onwards than it had been 1985 to 1987.

During the last ten years the horizontal inequities in the taxation of individuals shifted from the taxes payable by the double-earner married couple to the single-breadwinner married couple. The graphs in paragraph 6.3 clearly indicated that the 100:0 and 0:100 combinations of income for the married couple produced the biggest problems in horizontal equity as these couples paid more tax than the other income combinations while the breadwinner in the 100:0 and 0:100 combinations also had to support a dependant.

6.4.3 CHANGES FROM 1985 TO 1994 TAKING INFLATION INTO ACCOUNT

As earnings have increased continuously since 1985, as a result of inflation, a comparison needed to be made of the taxes payable for the inflation-adjusted incomes to determine whether the same conclusions of horizontal equity could be made as in preceding paragraphs.

The taxable incomes of 1994 were adjusted for the purposes of this paragraph in accordance with the inflation rates for the period

1985-1994. The annual inflation rates used were obtained from the Department of Statistics and are listed in Appendix C. Although the inflation rate was calculated taking into account changes in the consumer price index and not only on changes in salaries/wages over the period, it provided at least an indication of how prices moved and, as a result, of how salaries/wages had to increase to enable people to keep up with the change.

The following table shows the effective tax rates in 1985 on taxable incomes from R5 000 to R100 000 and in 1994 on the corresponding inflation adjusted taxable incomes of R17 050 to R341 000.

EFFECTIVE TAX RATES 1985-1994 WITH INFLATION-ADJUSTED INCOMES

<u>Taxable Incomes</u>		<u>Unmarried</u>		<u>Married couple</u>					
		<u>Person</u>		<u>100:0</u>		<u>50:50</u>		<u>0:100</u>	
1985	1994	1985	1994	1985	1994	1985	1994	1985	1994
R	R	%	%	%	%	%	%	%	%
5 000	17 050	4,1	8,1	1,5	5,1	nil	3,6	nil	14,3
10 000	34 100	9,8	18,6	7,22	13,8	4,8	9,7	4,8	21,7
15 000	51 150	15,2	25,5	11,9	20,4	9,2	14,3	9,2	26,9
20 000	68 200	20,4	29,8	16,4	25,6	13,9	17,8	13,9	30,2
30 000	102 300	28,7	34,2	24,5	31,3	21,3	23,7	21,3	33,4
40 000	136 400	34,0	36,4	29,3	34,2	27,3	27,9	27,3	35,1
50 000	170 500	37,2	37,7	33,4	36,0	31,8	30,6	31,8	36,0
60 000	204 600	39,3	38,6	36,2	37,1	34,9	32,4	34,8	36,7
70 000	238 700	40,8	39,2	38,1	38,0	37,0	33,7	37,0	37,2
80 000	272 800	42,0	39,7	39,6	38,6	38,6	34,6	38,6	37,5
90 000	306 900	42,9	40,0	40,8	39,1	39,9	35,4	39,9	37,8
100 000	341 000	43,6	40,3	41,7	39,5	40,9	36,0	40,9	38,0

The changes in the consumer price index indicated that a person's income had to increase 3,41 times during the period under review to keep up with inflation. The taxes payable in 1994 on these inflated salaries were calculated (using 1994 legislation), as well as the effective or average rate of tax thereon. What was clear from the table was that, even if the incomes had increased approximately

three-fold (which did not necessarily happen), the taxpayers in the higher income groups were not much worse off. The effective rates were lower in 1994 for all 1985 taxable incomes over R80 000. This was directly as a result of the lower maximum marginal tax rates.

The table above indicated that tax thresholds were lower in 1994 and people started paying tax sooner (if one took the inflation adjusted incomes and compared them with the 1985 incomes), but in the higher income groups the effective rate definitely decreased.

The unmarried person paid tax at an effective rate of 4,1 per cent on a taxable income of R5 000 in 1985, compared with the 1994 rate of 8 per cent (for the inflation adjusted income of R17 050). The married couple paid as follows:

100:0 combination - 5% in 1994/95 (1,5% in 1985)
 50:50 combination - 3,6% in 1994/95 (0% in 1985)
 0:100 combination - 14,3% in 1994/95 (0% in 1985)

The unmarried person was dealt with most favourably in 1994 compared with 1985 (in comparison with the other groups) at a taxable income of R50 000 (at 1994 inflated rates this was R170 500), as the effective rate remained the same (37 per cent in 1994 and in 1985). For taxable incomes in excess of this amount there was a lower effective rate. The unmarried person still paid tax at the highest effective rates for all taxable incomes above R30 000. For the married couple with the 100:0 combination, the effective rate was less in 1994 than in 1985 from a taxable income of R70 000 (1985 level - inflated joint taxable income of R238 700 in 1994). For the 50:50 combination it was more advantageous than previously from R40 000 taxable income (inflated income of R136 400 for 1994) and for the 0:100 combination it was only more advantageous from R70 000 (although the married woman paid 0,2 per cent more on the 1994 inflated income than she did in 1985).

The married woman as breadwinner paid far more tax than the other taxpayers on a taxable income of R20 000, adjusted for inflation. Her

effective tax rate was 14,3 per cent for a taxable income of R5 000 compared with 3,6 per cent (50:50), 5,1 per cent (100:0) and 8,1 per cent (see table above) for the unmarried person, but thereafter her effective rates and the unmarried person's effective rates did not differ by more than 3,1 per cent, and usually not more than 2,2 per cent. This meant that, even if she was taxed at higher rates in 1994, the lower overall rates applicable in 1994 compared with 1985 (from 1985 taxable incomes of R70 000) reduced the tax payable by the married woman. Compared with other married-couple income combinations she, however, was second worst off after the 100:0 combinations, in terms of tax payable.

For the husband/breadwinner (100:0 combination) the taxes were also almost 4 per cent higher at lower income levels increasing to 9 per cent higher at R20 000. At R70 000 (1994 inflated amount - R238 700) the effective tax rates were almost identical and from there the rates were lower in 1994 on inflated incomes than on original incomes in 1985.

According to the table in Appendix E-1, reflecting the numbers of taxpayers in the various income groups, 15 per cent of working married women (104 212 out of 677 000) earned between R10 000 and R15 000 in 1993. More than 447 000 working married women (two-thirds of the working married women) earned between R10 000 and R35 000, with effective tax rates of up to 21,7 per cent. They paid tax in 1994 at effective rates of between 14,3 per cent and 21,7 per cent. These rates were the highest of all the taxpaying categories.

Most of the taxpayers classified as married persons (2 027 562 out of 2 439 276 taxpayers) earned less than R70 000, according to Appendix F and they then paid tax at higher effective rates in 1994 than in 1985 and at higher rates than any other married couple combination if they were single breadwinners. For unmarried persons more than 500 000 out of the total of almost 860 000 earned up to R25 000 taxable income, paying tax at the highest rates of all taxpaying categories, except for the married woman.

It was doubtful, however, whether most of these incomes would have increased to this extent even though the rate of inflation used was the actual rate.

So, in general, if taxpayers earned the same taxable income as in 1985, they were better off in 1994 in terms of taxes payable than they were in 1985. They did, however, have difficulty in maintaining the same living standards as in 1985. Had their incomes increased with inflation, the lower income groups would have paid effectively more tax than in 1985. There were, in other words, no lower effective rates despite the lower maximum marginal rates, mainly due to the effect of bracket creep (the influence of inflation pushing earnings up into higher tax brackets but reducing effective buying power).

Horizontal equity considerations were thus still the same as for the pre-inflation calculations, namely that the married man as single breadwinner and the married woman as single breadwinner were the worst off, but double-income couples gained in terms of comparative taxes.

6.5 EXTREME CASES

There were other instances where the current system discriminated against the married couple. For example, where they were taxed separately and, because one of them earned very little, they paid more tax than when they were taxed together. Since 1989, section 7(2) of the Act provided the opportunity for the married couple to be taxed together, if the wife was regarded as the breadwinner of the family. This section applied when the husband "has not during the year of assessment derived gross income (including any amounts which would have constituted gross income but for the fact that they were derived from a source outside the Republic) exceeding the amount of R10 000" (Section 7(2)(c)(i) of the Act). This was intended as a "relief measure designed to assist couples who in consequence of the fact that

the husband has little or no income, find themselves liable for more tax in total than they would have paid had the combined taxation rule still applied" (Explanatory Memorandum on the Income Tax Bill, 1990:9).

Since the 1992 year of assessment, however, the married woman could decide whether or not these provisions should apply to her (Section 7(2)(c)(i) of the Act). This meant that her income was once again taxed in her husband's hands and she lost her privacy and independence, even though the choice rested with her. The husband became the taxpayer while she earned the income. She was also unable to claim any additional expenses and lost the primary rebate of R900. On the other hand, (if the wife did not opt for section 7(2)(c)(i) of the Act) the husband could not even utilise his full rebate if he earned less than R10 000, as the tax payable on R10 000 for a married person was only R1 750 and the rebate was R2 225 in 1993 and 1994.

The advantages of aggregation (adding the couple's incomes together and taxing it as if these were earned by the married person) were obvious. If, for example, the husband had a substantial tax loss and the wife earned a taxable income, this could have lead to tax savings for the couple.

De Wet (1993:50) attempted to "tabulate for comparative purposes the normal tax consequences of aggregation or non-aggregation of incomes in terms of the section 7(2)(c)(i) option of the Act relative to the respective tax brackets for married women". He listed the parameters within which it would have been advantageous for the married woman to elect to be taxed with her husband. He noted that, except where the wife's income exceeded R150 000 and where the husband's taxable income was less than R5 000, the tax payable under non-aggregation was greater. If, however, the husband's taxable income fell between R7 500 and R10 000, and the wife's taxable income was between R0 and R15 000, it was more advantageous to choose non-aggregation. Should the wife, however, have had a taxable income of between R20 000 and R75 000, the taxes payable, if they were taxed separately, were consistently more

than when their incomes were aggregated and taxed in the husband's hands. From a taxable income of R75 000 onwards it was not to the couple's advantage to choose aggregation as the wife's maximum marginal rate was lower than that of the married person's.

De Wet noted that if the husband had a taxable income of R10 000, the wife should not have elected to be taxed with him; if he had a nil taxable income - she should have elected the option up to a taxable income of R175 833; if he had a loss of R5 000, she should have elected the option up to a taxable income of R319 166; and for a taxable income of R5 000 she should have elected the option up to a taxable income of her own not exceeding R105 833 (1993:52).

De Wet's calculations ignored all deductions and he only included the primary rebates in his calculations. Aggregation became even more advantageous if other deductions were considered. To illustrate this, take for example a couple where the husband earned less than R10 000 from all sources, say R9 500 taxable in the Republic. The wife earned a salary of respectively R10 000, R20 000, R40 000, R60 000 and R80 000. Both had retirement annuity fund contributions (RAF) of R2 000 and medical expenses of R5 000 and the wife contributed 6 per cent of her salary to a pension fund. If she was taxed as a married woman she paid the following taxes:

Income taxes payable by a married woman if she was taxed as such

	R	R	R	R	R
Income	<u>10 000</u>	<u>20 000</u>	<u>40 000</u>	<u>60 000</u>	<u>80 000</u>
Pension fund	600	1 200	2 400	3 600	4 800
RAF	1 150	875	875	875	875
Medical					
expenses	<u>4 000</u>	<u>4 000</u>	<u>3 164</u>	<u>2 224</u>	<u>1 284</u>
Taxable income	<u>4 250</u>	<u>13 925</u>	<u>33 561</u>	<u>53 301</u>	<u>73 041</u>
Tax payable	723	2 625	8 132	15 570	23 466
Less rebate	<u>900</u>	<u>900</u>	<u>900</u>	<u>900</u>	<u>900</u>
	<u>Nil</u>	<u>1 725</u>	<u>7 232</u>	<u>14 670</u>	<u>22 566</u>

Her pension fund deductions were all allowable as up to 7,5 per cent of her salary was deductible in terms of section 11(k) of the Act, but the retirement annuity fund deduction was limited to R1 750 less the pension fund contribution, or R875, whichever was the greater (section 11(n) of the Act). The medical expenses were limited to the expense minus the greater of R1 000 or 5 per cent of the taxable income (Section 18 of the Act). In the above circumstances the husband would be taxed as a married person and would pay no tax.

If she and her husband were taxed jointly in terms of section 7(2), they had the following deductions and paid the following taxes:

Income taxes payable by a married couple if their incomes were aggregated

	R	R	R	R	R
Income	<u>19 500</u>	<u>29 500</u>	<u>49 500</u>	<u>69 500</u>	<u>89 500</u>
Pension fund	600	1 200	2 400	3 600	4 800
Retirement annuity fund	2 900	2 300	1 750	1 750	1 750
Medical expenses	<u>9 000</u>	<u>8 700</u>	<u>7 732</u>	<u>6 792</u>	<u>5 852</u>
Taxable income	<u>7 000</u>	<u>17 300</u>	<u>37 618</u>	<u>57 358</u>	<u>77 098</u>
Tax payable	1 210	3 160	7 933	15 217	23 481
Less rebate	<u>2 225</u>	<u>2 225</u>	<u>2 225</u>	<u>2 225</u>	<u>2 225</u>
	<u>Nil</u>	<u>935</u>	<u>5 708</u>	<u>12 992</u>	<u>21 256</u>
Taxes payable when wife was taxed as a married woman	<u>Nil</u>	<u>1 725</u>	<u>7 232</u>	<u>14 670</u>	<u>22 566</u>
Advantage in aggregation	<u>Nil</u>	<u>790</u>	<u>1 524</u>	<u>1 678</u>	<u>1 310</u>

The advantages were not only due to the fact that the couple could be taxed at married person rates, but that a larger deduction could

be claimed in respect of retirement annuity fund contributions and medical expenses. The situation was even more critical if the husband, for example, was over 65 years of age and he was unable, because of his low taxable income/gross income, to utilise the over-sixty-five rebate. If the wife had a high taxable income and they aggregated their incomes in terms of section 7(2)(c) of the Act, then it was possible to utilize this rebate. There was also no limit to the tax deductible medical expenses and they could deduct them in full.

The limitation of the deductibility of retirement annuity fund contributions for the married woman was addressed in section 11(n) proviso (ix) of the Act. This proviso allowed a married woman who became a member of a retirement annuity fund prior to 1 March 1992, to choose that her contributions to this fund be deemed to be her husband's. This meant that the husband, who was granted a greater deduction in terms of section 11(n)(aa)(B) and (C), deducted the contributions and the married couple received the advantage of a greater deduction. This, however, was not always to the couple's advantage and depended on their incomes, the amount of the contributions to the retirement annuity fund, their respective non-retirement funding employment income and their contributions to pension funds, as well as the husband's contribution to the retirement annuity fund (Mitchell 1993:55). This concession applied only to years of assessment ending no later than 28 February 1997. Mitchell (1993:95) concluded in a later article that donation of even partial contributions was possible so that the wife could deduct whatever limit was allowed and the rest of the contribution was then deemed to be her husband's. Whether the legislator agreed with this blatant splitting of expenses was doubtful but, if it was allowed, it could mean a considerable tax saving for certain couples, but only until 1997. When their incomes were aggregated in terms of section 7(2), however, the husband claimed the deduction based on the contributions of both spouses.

Another factor which influenced the aggregation decision was the payment of SITE. If the wife only paid SITE and was not required to render a return and her husband had, for example, a tax loss, the wife's SITE was final unless she chose aggregation, in which instance the loss could be set off against her taxable income.

The inequity from a horizontal equity viewpoint was evident where the husband had gross income in excess of R10 000 (say R10 001). The situation might even have existed that he was ill and over 65 years old. The wife actually supported him with her higher income, and she also paid some of his medical expenses, but she was not entitled to the higher deductions available to a married person or the more favourable rates because of the R10 000 aggregation limit. If the husband in the above example was over 65 years of age and earned a gross income of R10 001, had no retirement annuity fund or pension fund contributions, but had the R5 000 medical expenses as stated above, his tax calculation was as follows:

	R
Income	10 001
Less medical expenses	<u>5 000</u>
Taxable income	5 001
Tax payable	850
Less primary rebate	R2 225
Less over-65 rebate	<u>2 500</u>
Tax payable	<u>4 725</u>
	<u>Nil</u>

He was not able to utilize an amount of R3 874 of his rebates, while his wife, who had to help support him, had to pay tax (refer to table on previous pages), had a low primary rebate, and was not allowed to deduct all her medical expenses or all her contributions to a retirement annuity fund.

If the wife's income was taxed in her husband's hands (as section 7 of the Act allowed for income of the husband which was only R1 less

than the situation referred to above), then the taxes payable would have been as follows:

Income taxes payable by a married couple if their incomes were aggregated - Husband had income of R10 001

	R	R	R	R	R
Income	<u>20 001</u>	<u>30 001</u>	<u>50 001</u>	<u>70 001</u>	<u>90 001</u>
Pension fund	600	1 200	2 400	3 600	4 800
Retirement annuity fund	2 000	2 000	1 750	1 750	1 750
Medical expenses	<u>10 000</u>	<u>10 000</u>	<u>10 000</u>	<u>10 000</u>	<u>10 000</u>
Taxable income	<u>7 401</u>	<u>16 801</u>	<u>35 851</u>	<u>54 651</u>	<u>73 451</u>
Tax payable	1 282	3 060	7 438	14 106	21 949
Less rebates	<u>4 725</u>	<u>4 725</u>	<u>4 725</u>	<u>4 725</u>	<u>4 725</u>
	<u>Nil</u>	<u>Nil</u>	<u>2 713</u>	<u>9 381</u>	<u>17 224</u>
Taxes payable when wife was taxed as a married woman	<u>Nil</u>	<u>1 725</u>	<u>7 232</u>	<u>14 670</u>	<u>22 566</u>
Advantage in aggregation	<u>Nil</u>	<u>1 725</u>	<u>4 519</u>	<u>5 289</u>	<u>5 342</u>

From the above table it was clear that for a couple where the husband earned very little and was over 65 years of age, aggregation had considerable benefits as the full married person rebates could be utilised and the medical expenses of both spouses were deductible in full. The limit of R10 000 created an inequity as explained above, but it was accepted that there should be a limit. Perhaps it could be possible to have a certain income group (say between R10 000 and R20 000 gross income for the husband) where these concessions were phased out so that the cut-off was not so harsh.

6.6 HORIZONTAL EQUITY AND THE INTERIM REPORT OF THE COMMISSION OF INQUIRY INTO CERTAIN ASPECTS OF THE TAX STRUCTURE OF SOUTH AFRICA (KATZ COMMISSION)

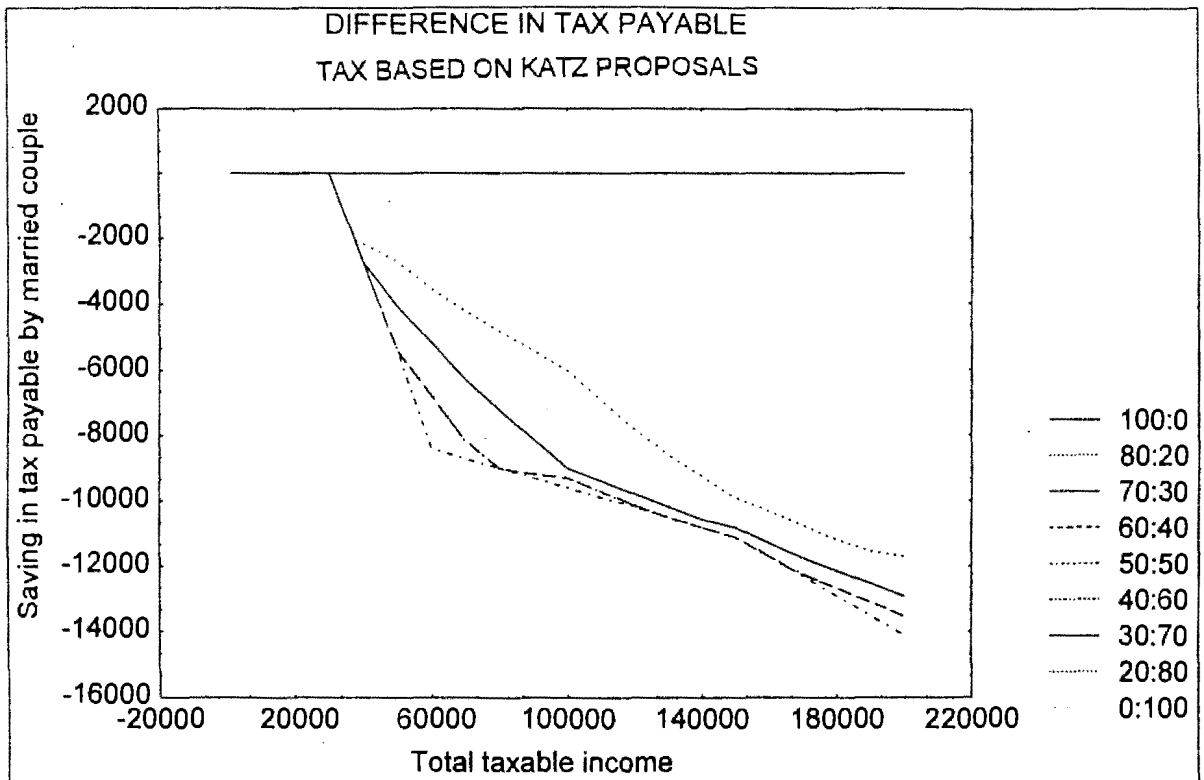
The Commission of inquiry into certain aspects of the tax structure of South Africa (Katz Commission) submitted an interim report on their findings on 18 November 1994. The Commission recommended one set of rates for all taxpayers, having concluded that equality before the law included the requirement that no differentiation be made on the grounds of marital status, as they considered doing so to be unconstitutional:

... all of these provisions [for married person, married woman] distinguish between married men and women on the basis of the personal characteristics of the taxpayer namely sex and/or gender and consequently can be described as unfair discrimination ... not sustainable under the Constitution.

(South Africa (Katz Commission) 1994:71)

There should also be only five different tax rates and "some form of primary rebate ... to alleviate the burden placed on very low incomes by the proposed 9 percent flat rate" (South Africa 1994:96). This rebate, however, was not spelled out and has been ignored in the following calculations.

The differences in tax payable by the unmarried person and the married couple based on the rates and other recommendations of the Katz Commission have been calculated in the same way as for the previous paragraphs in this chapter (Appendix F). The same taxable incomes and married-couple income combinations have been used, but rebates have been excluded as these were not quantified by the Commission. The following graph illustrates the effect of the Katz Commission's recommendations on horizontal equity as defined for this study:



(Extracted from Appendix F)

From the above graph it was clear that the tax payable by all two-breadwinner couples taxed in terms of the Katz Commission's recommendations would be close together except for, once again, single-breadwinner couples. They then paid exactly the same tax as the unmarried person on the same taxable income. (The 100:0 and 0:100 combinations form a line on the same level on the nil difference in tax paid in the graph above). They were taxed as individual persons without gender or marital status and they did not have the advantages of income splitting enjoyed by the other combinations.

The tax payable would be the same for each income combination for the married couple irrespective of the spouse who earned it. That is, the 30:70 and 70:30 combinations paid the same tax for each taxable income and the differences in tax paid were represented on the same line above. The same was true for the 80:20 and 20:80 combinations and for the 60:40 and 40:60 combinations. The biggest difference in tax paid between the unmarried person and the married

couple was for the 50:50 combination where the income was divided equally between the spouses and they had the maximum benefit of lower rates. The advantage of halving the income only applied, however, from a taxable income of R60 000 upwards.

For a taxable income of less than R32 000 there was no difference in tax payable between the unmarried person and any of the income combinations, but after that the differences increased and for the joint taxable income of R200 000 it was as much as R14 100 (for the 50:50 combination), R13 500 (for the 60:40 and 40:60 combinations), R12 900 (for the 70:30 and 30:70 combinations), R11 700 (for the 80:20 and 20:80 combinations) and nil (for the 100:0 and 0:100 combinations).

These recommendations, however, did not ensure horizontal equity and the main losers were the single-earner married couples and all the other taxpayers who qualified to be taxed as married persons, that is divorced people supporting children, widows and widowers. The Katz Commission proposed the provision of R0,5 billion in undefined aid to these people, but only for incomes up to R22 700. Even with the implementation of the Katz Commission's proposals there would still not be horizontal equity as defined in Chapter 2 of this study. The differences between one-breadwinner families and other taxpayers did not provide for dependants. The more favourable rates of the married person made provision for the fact that the married person normally maintained dependants and so needed more money for necessities than the unmarried person or even a married woman with a husband who also provided for the family.

Another problem envisaged with the implementation of the Katz Commission's proposals regarding the taxation of individuals was that, as high tax rates for married women were previously quoted as a disincentive for these women to work, it could be accepted that lower rates would encourage these women to return to work. It was further assumed that, as they did not work before the lower tax rates were introduced, they did not need to work to support their

families financially as the other spouse earned enough to support them. Should they also enter the labour market in an economy where jobs were scarcer by the day, and many school and university leavers were unable to find jobs, these women would further saturate the labour market and take jobs away from people who desperately needed them. A tax system, however, should not be there to encourage or discourage people from trying to work, and this matter should never be the reason for jeopardising horizontal equity.

The recommendations of the Katz Commission regarding the taxation of individuals might have removed gender discrimination from the Income Tax Act, but it still did not ensure horizontal equity to the taxpayer groups discriminated against since introduction of separate taxation.

6.7 CONCLUSION

From this chapter it was clear that horizontal equity was not achieved by merely changing tax rates and taxable entities. Over the last ten years many of the problems in connection with the joint taxation of married couples have been addressed by legislation and tax rates in general have come down.

As far as the married couple is concerned, they still paid less tax in total up to 1995 than the unmarried person who earned the same income as their joint income, except where the wife earned the bulk of the joint income. If the individuals were considered, the married woman paid the most tax up to a certain limit and then, because she had a lower maximum marginal tax rate, the tax of the married person and the unmarried person exceeded hers.

In this chapter the taxes payable by the married couple and the unmarried person who earned the same taxable income as the married couple jointly, have been calculated and compared for the period from 1985 to 1994. The annual differences between these taxes and the total change over the period have been calculated.

The incomes have also been adjusted for inflation over the same period and the results noted. For the higher-income groups the tax was lower in 1994 than in 1985, but for the lower-income groups the effective tax rates increased.

The main problem with horizontal equity in the taxation of individuals in the 1985 year of assessment was the two-breadwinner married couple, as the wife was taxed at her husband's marginal rates. This problem was progressively eliminated with the increased married woman's earnings allowance and the joint assessment allowance and, from 1990, separate taxation for married women. Gradually the single-breadwinner couple emerged as the group that paid the most tax of all the married couples on a particular level of income. This was unfair as these taxpayers support a spouse and/or children on one person's income.

In the 1994 and 1995 years of assessment the double-breadwinner couple paid consistently less tax than the unmarried person and increasingly less tax than the other married-couple income combinations. This also did not represent horizontal equity. The solution suggested by the Katz Commission only helped the single breadwinners who earned up to R22 700 annually, which suggested a certain measure of vertical equity and also horizontal equity for those taxpayers earning R22 700 or less, but did not provide horizontal equity for all taxpayers earning more than that.

A solution must therefore be found in the next chapter that provides tax relief for the single breadwinner, without compromising the requirements of the new Constitution and the other requirements set in the Katz Commission's report.

CHAPTER 7

FINAL CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION AND OVERVIEW OF THE RESEARCH

7.2 HORIZONTAL EQUITY/INEQUITY IN SOUTH AFRICA 1994/1995 AND THE TAX UNIT

7.3 IMPACT OF THE NEW CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA ON THE TAXATION OF INDIVIDUALS

7.4 RECOMMENDATIONS FOR ACHIEVING HORIZONTAL EQUITY IN THE TAXATION OF INDIVIDUALS IN FUTURE

7.4.1 RECOMMENDATION ONE: TRANSFERABLE ALLOWANCES

7.4.1.1 The nature of the recommendation

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7.4.2 RECOMMENDATION TWO: MARRIED WOMEN TAXED AS UNMARRIED PERSONS

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**7.4.3 RECOMMENDATION THREE: ALL TAXPAYERS TAXED AT RATES
SUGGESTED BY THE KATZ COMMISSION WITH A FIXED ALLOWANCE
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7.4.3.1 Cost per person for necessary living expenses

7.4.3.2 The nature of the recommendation

7.4.3.3 Advantages of the recommendation

7.4.3.4 Disadvantages of the recommendation

**7.4.4 RECOMMENDATION FOUR: ALL TAXPAYERS TAXED AT RATES SUGGESTED
BY THE KATZ COMMISSION WITH A REBATE FOR BREADWINNERS**

7.4.4.1 The nature of the recommendation

7.4.4.2 Disadvantages of the recommendation

7.4.4.3 Advantages of the recommendation

**7.4.5 RECOMMENDATION FIVE: ALL TAXPAYERS TAXED AT RATES SUGGESTED
BY THE KATZ COMMISSION BUT WITH A PROPORTIONAL ALLOWANCE FOR
BREADWINNERS**

7.4.5.1 The nature of the recommendation

7.4.5.2 Disadvantages of the recommendation

7.4.5.3 Advantages of the recommendation

7.4.6 FINAL RECOMMENDATIONS

7.5 OTHER SUGGESTIONS FOR IMPROVING HORIZONTAL EQUITY

7.6 FINAL CONCLUSIONS AND SUGGESTIONS FOR FURTHER STUDY

7.1 INTRODUCTION AND OVERVIEW OF THE RESEARCH

This study has shown that the background, social structure and workpatterns of the adult members of the family unit have changed over the past century. These changes occurred gradually as a result of various factors such as increased financial pressures on the household and the fact that the married woman began working outside the home where previously she concentrated on raising her children and caring for her family.

The definition of the taxation unit was previously based on this perception of the one-breadwinner family, and it was structured so as to benefit this family. This was to the detriment of the new two-breadwinner family. As a result, the working married woman paid tax at her husband's marginal rates and he was responsible for her taxes. Thus, she was deprived of privacy and status regarding her financial and tax matters.

In the last few decades tax systems all over the world have changed in an attempt to accommodate working married women. Chapter 3 discussed the taxation of individuals in other western countries and indicated the changes made in legislation to accommodate working married women. In South Africa this subject has been widely debated, but taxation legislation continued to favour the one-breadwinner family until 1987, when the Margo Commission advised separate taxation.

Chapter 4 discussed South African income tax legislation since its inception and indicated the changes made up to 1995. The chapter concentrated on the changes in the taxation of individuals and especially the taxation of the married couple versus the unmarried person. The joint taxation of husband and wife was not originally regarded as a problem as the wife did

not normally earn any income nor was she a co-breadwinner. Gradually, taxpayers perceived this situation to be unfair. As more and more married women entered the labour market, the unfairness of the situation was further highlighted by complaints from feminists and others and by investigations by various commissions and committees.

The Margo Commission researched and discussed this topic at great length during 1984 and 1985. Chapter 5 reviewed its activities in this respect, listing all the problems perceived at the time by both the Commission and the taxpayer, noting possible solutions and the problems arising from such possible solutions. Finally, the chapter discussed the Commission's recommendations for separate taxation and the transferability of allowances between spouses, as well as government's response to the recommendations.

Chapter 6 calculated the effect on the taxation of individuals in the period since the recommendations of the Margo Commission and compared the different individual taxpaying units. As the married couple (or the household) was still considered to be the economic unit for consumption purposes, the tax payable by this unit (considered for the purposes of this study to be a childless married couple) was compared with the tax payable by the unmarried individual. The pattern of taxing married couples has changed radically from 1985 to 1995. It changed from a tax system that discriminated against the two-income married couple to one that treated them preferentially at the cost of the single-breadwinner family.

The calculations in Chapter 6 showed that the inequities that previously existed against the married woman were, however, not completely removed, as she started paying tax sooner and at higher rates than the other two taxpaying categories. She, however, had a lower maximum marginal rate than the other two categories, which worked in favour of married women earning

higher incomes. This was not fair to those in the lower income groups as married women earning lower incomes were probably working to provide necessary additional income for their families.

It was also shown that the "losers" would be the single-breadwinner families where the husband, or wife, earned the income for the family, or where the husband had a gross income slightly in excess of R10 000 and the wife did not qualify to be taxed as a married person, that is, where her income was not taxed in her husband's hands.

Chapter 7 considers the definition of the tax unit and of horizontal equity as applied in the South African context. Several recommendations are made in an attempt to solve the dilemma of the one-breadwinner family. The first solution suggested agrees with the original recommendation made by the Margo Commission and similar, current legislation in England, while other recommendations incorporate the implications of the new Constitution. Certain other suggestions are also made in an attempt to alleviate the burden on the working married woman and on the two-breadwinner married couple.

7.2 HORIZONTAL EQUITY IN SOUTH AFRICA AND THE TAX UNIT

Mirrilees (1979:1) isolated equity and economic efficiency as the most important criteria to be satisfied by structuring principles of income tax reform of personal income tax. These criteria were best met by a comprehensive definition of the income tax base.

The tax unit ... in South Africa ... is the married couple. This is based on the principle of ability to

pay, having regard to the resources of the unit which earns and disposes of the income. The common situation of a household is that the joint earnings of husband and wife are used for the benefit of the joint household. This is valid even where each spouse exercises control over his or her earnings, which are not necessarily pooled to finance household expenditure. Expenses borne by one spouse (eg rent, food, light, fuel) relieve the other of this burden and by the same token clothing bought out of earnings of, say, the wife, relieves the husband of that expense so that, compared with the family with only one breadwinner and the same income, there is no difference in common household expenditure, and the only disparity in ability to pay may lie in the additional expenses incurred by the wife in earning the additional income brought by her into the unit (translated).

(South Africa 1976:para 2)

Webb (1993:14,16) also noted that the official statistics on the income distribution in the United Kingdom used the household as the unit of analysis.

In many cases an individual's access to independent income will be a poor indicator of living standards. This is because as noted above, many individuals will share at least in part in the income of other household members.

The married couple was therefore taken as an economic unit for the purpose of calculating tax payable in comparisons of horizontal equity. Calculations in Chapter 6 indicated that, if the tax of a married couple was added together and compared with the tax of an unmarried person earning the same income as their joint income, many factors influenced horizontal equity.

These factors ranged from their total joint income and marginal rates to the actual combination constituting their joint income. Where a married couple's joint income consisted of 50 per cent husband's income and 50 per cent wife's income, the couple paid less tax than where the combination was, for example, 80 per cent and 20 per cent. Although the tax rates in 1994/1995 were lower than in 1985 (refer to inflation adjusted rates - see Chapter 6), there was still no horizontal equity and, although a certain amount of inequity was to be accepted, it was felt that those inequities were too extensive.

For years of assessment commencing on or before 31 December 1994 there was definitely no equality and also only varying degrees of equity in the taxation of individuals in South Africa, depending on the income combinations of married couples. Married couples were previously taxed together and at more favourable rates than unmarried persons. The reason for this was that the married couple was previously perceived to have only one breadwinner who supported dependants. As such the married couple was treated more leniently than the unmarried taxpayer by income tax systems all over the world.

To treat all taxpayers in the same way, that is, equality in tax payable and in after-tax income, would not show consideration for the position of the single-breadwinner and this too would certainly not achieve equity. Equality would imply no consideration of the number of dependants of a taxpayer or the number of breadwinners in a household.

Even though many families are now two-income families, the significance of the family as a unit cannot be ignored when considering horizontal equity. The family is considered to be the economic unit as it is the entity that provides the housing and shelter and food to all family members. "Demographic variables such as family size manifest themselves

in the consumption patterns of various households" (Balcer & Sadka 1979:1). When considering the needs of the household, living standards, and other important financial considerations, authors considered the household to be the economic unit. (Refer Symons and Walker (1986:38-47), Blundell *et al* (1984:1-22), Smeeding *et al* (1993:229-256), Jenkins and Lambert (1993:337-355).)

Although a person who earns a taxable income, is liable for income tax, such a person may have to support himself/herself and a spouse, children and other dependants, while another person, earning the same income, may only be responsible for himself/herself. Thus, the person with the dependants would, after tax, have less to spend per person than the person without dependants and horizontal equity would be compromised.

Large families will typically need more resources than small families to reach the same standard of living ... In assessing the distribution of income, the progressivity and effectiveness of the tax and social security systems and the impact of government policies on the living standards of households, it is necessary to take a view on the nature and levels of these cost differences.

(Banks & Johnson 1994:1)

The Margo Commission also referred to the family as an unit:

It is important to note that the economy-of-scale argument ... serves also to assert that the liability for tax of one-breadwinner and two-breadwinner families should be (roughly) the same. Only the additional expenses incurred by the second earner in generating the second income justifies a concession in the latter's favour.

(South Africa 1987: para 7.12)

Taxation legislation in South Africa specifically prohibits the deduction of private expenses as such a "concession" would not be in the spirit of the law. The differentiated rates and the "splitting" of the couple's income already provides a legal reduction in taxes. This "help" to the second income-earner is further discussed in paragraph 7.5. The Margo Commission mentioned the economies-of-scale and that this would be to the advantage of the single-breadwinner, but only up to a certain point. Thereafter, two-breadwinner couples are better off than one-breadwinner couples.

The Taxpayer also noted that the Margo Commission divided equity into horizontal equity and vertical equity and referred to families in the following context:

The former [horizontal equity] requires that similar individuals be treated similarly or that persons in the same situation be treated equally or that individuals and families in similar circumstances bear the same taxes. Vertical equity, on the other hand, requires that ...

(Neutrality and equity in taxation 1990:161)

This reference to families must surely mean family members living under the same roof and living off the same resources and include a person with a dependent spouse and/or children.

The British Green Paper of 1980 identified the discrimination between types of family unit, citing the difference in tax treatment and especially the difference granted to one-breadwinner families versus two-breadwinner families as sources of this discrimination (United Kingdom 1980:paras. 34-8).

Chapter 2 made extensive reference to the different definitions of horizontal equity and here the following definitions were applied to the current South African context:

Equal tax treatment of persons in the same economic circumstances.

(Hettich 1983:417)

... [T]axpayers in essentially equivalent circumstances should bear essentially equal tax burdens ...

(Blum & Pedrick 1986:100)

It is normally defined as a situation in which families with the same standard of living are treated equally in a system of transfers and taxes. In other words families with the same initial living standard experience an equal change as the result of redistribution.

(Habib 1979:283)

These researchers all considered the family or the person's economic circumstances (which would include his or her expenses for dependants) to be part and parcel of his or her taxable equity in comparison with other taxpayers. Lilla (1986:139,140) also concluded that "[f]amily, not the individual, is their 'unit of analysis' in thinking about distributive matters".

To have horizontal equity therefore, the tax system must tax the family with a single-breadwinner less than the taxpayer without dependants or the two-breadwinner family, if all earn the same (joint) taxable income.

7.3 IMPACT OF THE NEW CONSTITUTION OF THE REPUBLIC OF SOUTH AFRICA ON THE TAXATION OF INDIVIDUALS

Chapter 3 of the interim constitution contains the Bill of Rights which entrenches "various fundamental human rights and

freedoms" (Basson 1994:8). Section 8 of the Bill of Rights contains the right to equality and especially gender equality. This implies that there can be no discrimination on the grounds of gender and this brought the Income Tax Act under attack as it differentiated between a married person and a married woman. It was expected that all clauses referring to a married woman would have to be removed from the Act and therefore also the tax rates for married women. Van Schalkwyk (1994:S4) referred to the constitution and suggested changes on these grounds but cautioned that this might not be immediately affordable.

The interim report of the Katz Commission of Inquiry into certain aspects of the tax structure of South Africa concluded that discrimination based on marital status "... could be unconstitutional [or] ... be inappropriate" and the Commission recommended that it be eliminated (1994: par 6.3.20). If this is done, the problem with the definition of tax units could arise, especially if there is more than one unit. Descriptions of taxpayers should then exclude any reference to male/female or to marital status.

The Constitution therefore demands a drastic change to the legislation of income tax in South Africa, but such a change should still provide the equities sought and not just equality between individuals.

On March 15, 1995 the Minister of Finance announced the 1995 amendments to the Income Tax Act, no 58 of 1962. These amendments were not yet promulgated at the time of completion of this study and are therefore, only briefly referred to here.

The most important amendment for the purposes of this research was the abolition of three different tax rate schedules and the removal of the biggest areas of discrimination on the

grounds of gender, marital status or any allowances made to persons who have children, entitling them to a child rebate from the Act.

"[T]he Budget had achieved 'constitutionality' through the removal of gender discrimination" (Cohen 1995:1). The Minister of Finance said that the changes to the tax rate structure would result in people who earned less than R30 000 a year benefitting or "not being worse off, except for single earners with five or more children". He also emphasised that households with two earners would derive substantial benefit from the budget "irrespective of income or number of children". (Cohen 1995:2)

As these changes are basically what was suggested by the Katz Commission in their interim report and the main criticism against the amendments (as against the Katz Commission recommendations) was the total apathy for the plight of one-breadwinner families and taxpayers with dependants, no further research will be done on or mention made of these amendments in this thesis.

7.4 RECOMMENDATIONS FOR ACHIEVING HORIZONTAL EQUITY IN THE TAXATION OF INDIVIDUALS IN FUTURE

The effect of the changes in legislation from 1985 to 1994 on horizontal equity in the taxation of individuals was made clear in Chapter 6. The changes since the Margo Commission have been many and varied, but, although all the Commission's recommendations have not been implemented, many of the problems of the system of taxation of married couples as it then existed have been solved. These included the following: the problem of the working wife's privacy relating to tax

matters, the status acquired by the working wife as a separate taxpayer (which meant that she had the same independence in her tax affairs as was enjoyed by all other taxpayers) and separate taxation for the married woman (although this did not necessarily mean less taxation). It could probably be said that the marriage penalty from a tax point of view was a thing of the past (refer to Chapter 6). Horizontal equity, however, sought by all individuals and not just the married woman, has not yet been achieved.

Previously, the biggest problem was horizontal equity for the two-breadwinner family, especially where both spouses earned more or less the same income.

This later changed and it is the one-breadwinner family that is treated inequitably by the tax system. One-breadwinner families are the following:

- A working husband with a spouse and children dependent on him
- A working wife with a spouse who earns very little or no income
- Single parents as a result of the increase in divorce (this often means that the mother raises the children)
- Other family connections, for example the taxpayer having to provide for an aged or indigent parent or brother or sister
- Other connections, for example, unmarried people living together or people in a homosexual union as yet unacknowledged by the fiscus.

Keeping in mind horizontal equity and the equality required by the new South African constitution, this question remains to be solved.

To solve the problem of horizontal equity completely, however, is impossible as inequities would always arise from any reform. The cost to the government of attaining equity is also considered to be too high. The perception of equity differs from person to person and everyone defines equity and (especially horizontal equity) differently to suit their own purposes. No consensus could be reached therefore concerning equity. Just as the concept of vertical equity is difficult to quantify (should the rich be taxed so much that they have the same take-home pay as the poor or should they be encouraged by the tax system?) so too, the concept of horizontal equity is difficult to quantify.

It cannot be expected of the government to compensate single breadwinners for the fact that two-breadwinner couples have the advantage of two sets of rates and are taxed at lower marginal rates on the joint income of the spouses. Provision of some kind of relief should be made for the single breadwinner, however, and the inequities could, and should, be lessened by providing tax relief under prescribed circumstances to people with dependants.

Although the 1995 taxation amendments were not known at the stage of formulating the proposed solutions to address the problem with horizontal equity, it appeared then that the recommendations of the Katz Commission of inquiry would be implemented, at least in respect of the one set of rates for all taxpayers. This fact does not affect the recommendations made here insofar as solutions for horizontal equity were sought in terms of the 1994 legislation. Other recommendations made involved different rates and, also, solutions are sought to the horizontal equity problem inherent in the recommendations of the Katz Commission. The recommendations in this study were therefore not limited to the proposals of the Katz Commission. General solutions to the problem of

horizontal equity were sought and not just to the ruling legislation's contribution to the problem of equity.

It must be noted too, that this study proposes that the surest solution to the equity problem would be to have differentiated tax rates for breadwinners and non-breadwinners and, to a certain extent, transferable allowances between spouses. Although this would be the ideal solution, it is difficult to say exactly to what extent the rates should be differentiated and what the differences should be. (There is also the possibility that such legislation could be construed as unconstitutional.)

7.4.1 RECOMMENDATION ONE: TRANSFERABLE ALLOWANCES

The introduction of an allowance granted to a married couple and which could then be transferable between the spouses, when not utilised by the first spouse, was suggested by the Margo Commission at the same time as separate taxation for spouses was suggested (Paragraph 5.4.2).

7.4.1.1 The nature of the recommendation

Although a transferable allowance can take many forms and be subject to many limitations, the simplest way to introduce a transferable tax benefit to one-breadwinner couples would be to allow the primary rebate of the one spouse to be transferred to the other spouse, if it is not utilised in full by the first spouse. The rebate given to married persons (husband) at this stage is R2 225 and to married women (wife) is R900 (legislation in force from 1993 to 1995).

The 0:100 combination of income for married people would be the biggest gainer as the wife would be able to deduct the R2 225 allowed to her husband as a primary rebate. This would apply when the husband has no taxable income in the Republic but at least R10 000 gross income from non-Republic sources. This group was most discriminated against under the legislation governing the 1993, 1994 and 1995 years of assessment. The 100:0 combination would also gain but only to a maximum of R900 - the primary rebate of the wife not utilising it. The married couple with only one breadwinner would, however, have the benefit of R900 plus R2 225, as for all other income combinations for spouses. Herein lies the equity. Provision of relief for the single breadwinner is necessary and the transferability of the primary rebates is a small but real compensation. Previously, when the wife's income was taxed in her husband's hands, the primary rebate was only available to the husband on the joint income of the spouses but in this way it will be available for deduction from the couple's tax.

A comparison between the tax provisions for the tax years 1993 to 1995 and Recommendation One concerning the tax thresholds and the taxes payable would give an indication of the impact of Recommendation One on the different taxes.

With reference to the table below, all the thresholds for the married couple are the same except for the 20:80 and 0:100 combinations and these thresholds are only R1 000 below the others. This indicates horizontal equity, at least in the tax thresholds, which was not the case previously.

COMPARISON OF TAX THRESHOLDS 1993/94/95 AND RECOMMENDATION ONEUnmarried person/income

<u>combination married couple</u>	<u>1993/94/95</u>	<u>Recommendation one</u>
	R	R
Unmarried person	11 000	11 000
Married couple:100:0	13 000	18 000
80:20	16 000	18 000
70:30	18 000	18 000
60:40	14 000	18 000
50:50	11 000	18 000
40:60	9 000	18 000
30:70	8 000	18 000
20:80	7 000	17 000
0:100	6 000	17 000

(Extracted from Appendix I-1)TAXES PAYABLE BY MARRIED COUPLE 1993-95 AND RECOMMENDATION ONE

<u>Taxable income</u>	<u>80:20</u>		<u>50:50</u>		<u>0:100</u>	
<u>married couple</u>	<u>1993-95</u>	<u>Rec 1</u>	<u>1993-95</u>	<u>Rec 1</u>	<u>1993-95</u>	<u>Rec 1</u>
R	R	R	R	R	R	R
10 000	Nil	Nil	Nil	Nil	900	Nil
15 000	Nil	Nil	425	Nil	1 950	Nil
20 000	675	455	900	425	3 150	925
30 000	2 455	2 455	2 425	2 425	5 950	3 725
50 000	7 275	7 275	7 075	7 075	13 350	11 125
100 000	25 625	25 625	23 325	23 325	33 350	31 125
150 000	45 625	45 625	43 725	43 725	53 350	51 125
200 000	66 425	66 425	64 425	64 425	73 350	71 125

(Extracted from Appendix I-1)

It is clear from the above table that Recommendation One only lowers the taxes of the lower income couples. In the case of higher income couples (usually where the second spouse also earns more than the R10 000 gross income required for

aggregation), the taxes payable are identical to those for the 1993 to 1995 years of assessment.

7.4.1.2 Disadvantages of the recommendation

The practical problems associated with this recommendation concerned limiting abuse and identifying the spouses that could use this benefit, without placing undue stress on the already strained administrative resources of Inland Revenue. Another negative factor might be the possible cost to the State if this recommendation is implemented.

The spouses should be identified in the same way as they are identified in the United Kingdom. There spouses have to apply for the transferable allowance. The spouses would then already have calculated their respective taxable incomes and the extent to which they would utilize their own rebates. When they submit their tax forms (together), they should request the transferability of their rebates. This will eliminate unnecessary handling of the returns of spouses who utilize their own rebates to the full.

Robinson and Stark (1988:48), however, considered these allowances in the United Kingdom to be a "substantial tax expenditure which is poorly targeted". In the United Kingdom transferable allowances meant that the wife and the husband were entitled to "personal allowances" equal to that of a single taxpayer. There they can claim an additional married couple's allowance which could be transferred between the spouses - a single person would only have the one allowance - amounting to £2 605 in 1989, whereas a one-breadwinner couple would have the £2 605 and the married couple's allowance of £1 490 while the two-breadwinner couple would be entitled to twice the £2 605 and the £1 490 married couple's allowance. They felt that two-breadwinner couples (who needed it the

least as both spouses are earning income) were favoured, whereas the tax relief should rather have targeted couples with children. Transferability of primary rebates in South Africa would not give rise to these same distortions as no additional married couple's allowances apply in South Africa. Moreover, it is the higher rebate for a married person - as a remnant from the days of the single breadwinner - that should be transferable to the wife if the husband does not utilise it in full, or the wife's rebate should be available to the husband who (as a married person), was taxed at lower tax rates, to provide equity for the one-breadwinner couples.

This allowance would only be available to people who are considered to be 'married' in terms of the Income Tax Act and, as such, is not an ideal solution as it would not provide for any single parents or for other single-breadwinners mentioned above. The reason for this is to prevent abuse and it would not be practically possible to apply it to people who could not be identified as married as there would be no proof of this. Married persons would be identified in the way that Inland Revenue has always done so.

The single parent was taxed at the married person's rates and had the higher primary rebate. This concession should, however, be available to those parents who physically raise and provide for their children (refer to paragraph 7.4.2.1), whereas both divorced parents were taxed as married persons.

The allowance should not be phased out with higher incomes as this recommendation alleviates horizontal inequity and not vertical inequity. Progressive rates would still provide the vertical equity and the amount becomes less and less material the higher the taxpayer's income.

It is not entirely fair that the 'breadwinner' married woman would now get an additional R2 225 rebate, whereas the

breadwinner married man only gets the R900, as the wife's maximum marginal rate is lower than that of the married person. The marginal rates, however, should gradually be adjusted to provide the equity sought and to comply with the requirements of the constitution as already suggested by the Katz Commission. The tax relief is considered to be for the family and not only for the specific taxpayer. This would provide the most effective relief to lower-income taxpayers.

Would taxpayers capitalize on this reform? It is doubtful that anyone would legally marry another person to obtain, at most, an additional R2 225 rebate. Persons in certain (high) income categories, however, might stop working in order for their spouses to receive the tax benefit. This, however, is also doubtful as such a person would then give up the monthly benefit of a large salary cheque in expectation of their spouse receiving a very small benefit and that only some time later as this advantage could only be claimed when submitting a tax return.

Another problem would arise for married couples who are paying Standard Income Tax on Employees (SITE) as a final tax and therefore not submitting a tax return. This would counteract this advantage of SITE, but the couple could still submit tax returns and apply for the transferability of rebates. This would, however, involve additional administrative work for the Department of Inland Revenue.

What would it cost Inland Revenue to implement this recommendation? As it was not possible to determine exactly how many one-breadwinner couples and single breadwinners were included in the statistics of married persons or how many of these married persons had wives earning taxable income, it was assumed that all the married women had husbands who earned enough for them to be able to utilize their own rebates. This would mean that there were approximately 2 107 170 married

persons (Refer Appendix E-2) who did not have a working spouse who was liable for tax. This number should be reduced by the number of widows and widowers who did not have any dependent children and then multiplied by R900, which is the only additional rebate available to them. This would mean a cost to the State of approximately R1,9 billion. Although a substantial loss of revenue, it amounts to only 5 per cent of the total tax collections from individuals in 1994. While it is also improbable that all the other married persons would qualify, this rough estimate should cover the R2 225 available to the qualifying married women. It was not possible to determine how many married women would be able to utilize the R2 225, as statistics were not available of married women with non-taxpaying husbands who do not have gross income in excess of R10 000.

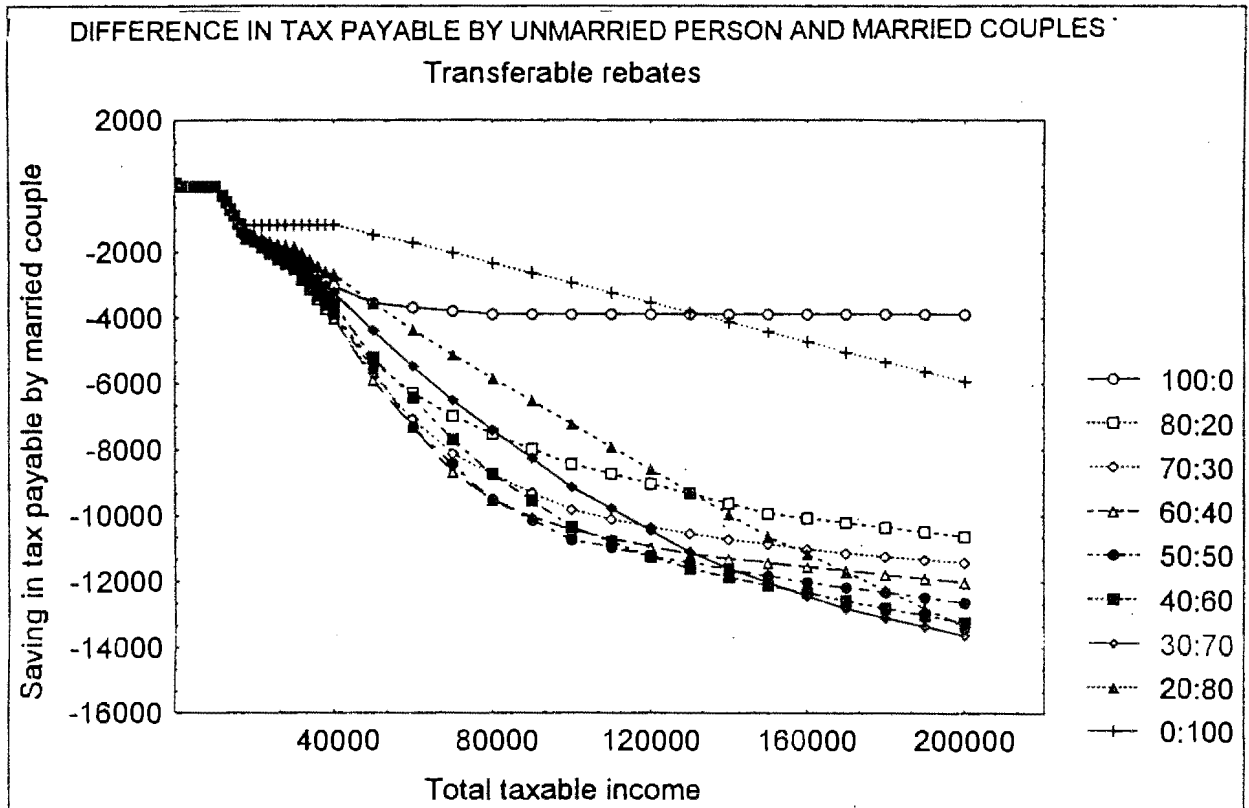
The biggest disadvantage of this recommendation, however, is that it does not take into account the provisions of the new constitution and any repercussions that may arise as a result of possible discriminatory references and definitions in the Act.

7.4.1.3 Advantages of the recommendation

This reform would be most effective in the lower income groups where it is needed most. It also raises the thresholds for the two categories of one-breadwinner married couples from R6 000 to R17 000 in the 0:100 category and from R13 000 to R18 000 in the 100:0 category compared with the taxes payable for the 1993/94/95 years of assessment (Appendix I-1). This would be more equitable as both breadwinners would have almost the same tax thresholds.

As could be expected, the income combinations of the married couple, where the wife earns more than the husband, would gain

the most from this reform because the rebate which is transferred to her is bigger than the R900 rebate she transfers to her husband. For this reason the 80:20 combination's tax threshold would only increase by approximately R2 000. The tax payable in the case of the 70:30 combination under this option would be identical to the normal taxes payable. (Refer Appendix A-9 and Appendix I-1).



(Extracted from Appendix H-1)

The graph (above) indicates the difference in tax payable by the unmarried person versus the married couple, if the couple should be able to transfer their respective rebates to the other spouse when not fully used. The biggest change, compared with the situation in the 1993/94/95 years of assessment would be that the graphs for the two-breadwinner lines are now closer together but still some way removed from the taxes payable by the other double-income married couples.

This is therefore an improvement, or more equitable, for single breadwinners, but they would still pay more tax (and substantially more) than other married couples.

The canons of taxation would be satisfied to a great extent. The legislation would be certain, or rather ascertainable, when the spouses calculate their joint tax or their respective taxes. The Inland Revenue Department may have less certainty, as they would only know how many rebates would be transferable when the spouses requested this. Collection costs would probably be less economical, as both returns would have to be assessed at the same time. Horizontal equity would improve and it would not be inconvenient for the taxpayer, as the married couple would only need to submit their returns together and request transferability.

The question could be asked whether this would be a politically attractive reform. To politicians, it might be an acceptable change as they could show that they really care about the one-breadwinner family. This is especially necessary as this problem has been with us since the introduction of separate taxation and the social security system in South Africa is not capable of providing for these people. Where both breadwinners in a household are unemployed, however, this reform will not provide any relief. This study was addressing a tax problem and not poverty relief for the underprivileged.

The recommendation would, with very little change to the 1995 legislation and with no change to its tax rates and rebates, provide a visible attempt by the government to alleviate the burden of single-breadwinners and, in time, it could be expanded to provide for other non-married breadwinners as well.

This reform would provide more horizontal equity than was the case at the time, at least to single breadwinners in the lower income categories, that is, relief on taxable income of up to R25 000 for the 80:20 combination, up to R22 000 for the 60:40 combination, up to R30 000 for the 40:60 combination, up to R50 000 for the 30:70 combination and up to R60 000 for the 20:80 combination. Relief of R2 225 and R900 in tax throughout would prevail in the case of the 0:100 combination and the 100:0 combination respectively (Appendix I-1).

This would bring the lines of the graph closer together which would mean a move towards horizontal equity. This is the best that could be hoped for as perfect equity is known to be impossible.

7.4.2 RECOMMENDATION TWO: MARRIED WOMEN TAXED AS UNMARRIED PERSONS

To provide relief for single breadwinners without compromising the equality required by the constitution, references to gender should be removed from the Income Tax Act, and especially reference to rates and rebates for married women. Then the married person rates could be used, but only for proven breadwinners with dependants and the unmarried person rates could be used for all other taxpayers, without any compromising reference to gender. There would be rates for breadwinners and rates for "other taxpayers". The current "married person" and "unmarried person" rebates could remain or be adjusted to accommodate the cost of the increase in rebate from R900 to either R1 950 or R2 225 for the almost 700 000 married women.

7.4.2.1 Description of "breadwinner"

The definition or description of "breadwinner" should be clear and precise to prevent tax avoidance. It should, first and foremost, apply to married couples where only one spouse provides the income for the couple (and the family) and for single parents with dependent children. It should exclude widows and widowers except insofar as they qualify in another context, that is, if they have dependent children.

'Breadwinner' should include only those single parents who actually provide for their children. In the United Kingdom, where an advanced network provides social security payments to lower income groups and single parents, 313 000 families received the 'family credit' in 1990. Of these, 40 per cent were single-parent families, with mainly the mother supporting the family (Dilnot and Duncan 1992:1). There were more than one million single-parent families in the United Kingdom at that stage and the family credit would help the mothers, as part-time work is usually the only answer for such parents still raising their own children.

Webb (1993:33) focused his study on the independent income available to men and women from labour-market activity and from other sources.

Considering first *single women with dependent children*, there seems every reason to suppose that this group will continue to grow in number in the next 10 years. What is less clear however is that the long-term decline in the rate of labour market participation among lone parents will also continue.

Bingley, Symons and Walker (1994:81,82) concluded that still more single mothers would enter the United Kingdom labour

market as a result of recent changes to the United Kingdom Child Support Act.

In the United States of America the number of single mothers as single parents increased from 11 per cent of total parents in 1970 to 22 per cent in 1990. Of these, 53 per cent of the mothers were in the labour force in 1990 compared with only 29 per cent in 1970 (Labich 1991:36).

It is clear that an increasing number of single mothers overseas raise their children without any maintenance or support from the fathers and the number of single-parent families is increasing. It is assumed that both the number of single parent families and the number of single mothers as breadwinners are increasing in South Africa as well. It would be unfair towards the care-giving parent, and other taxpayers, to allow both parents the "breadwinner" benefit simply because they are able to submit birth certificates of their children. The mother should be required to convince the Commissioner for Inland Revenue that she is the only breadwinner or, alternatively, mothers should be assumed to be the breadwinner, unless the father can prove his maintenance support by submitting both a divorce settlement order and physical proof of payments made to or on behalf of the children. There should, however, be no discrimination. That is, the parent claiming the advantage should have to provide proof of payments on behalf of or to the children and not merely produce the birth certificate.

Although each member of a divorced couple frequently provides for his or her children, usually the ex-husband's contribution is limited to a monthly maintenance amount while the other parent physically, and often financially, provides for the children. Where the mother does not work and lives on the maintenance received from her ex-husband, the husband is clearly the breadwinner.

The problem arises, however, when both parents work and both contribute to the maintenance of the children. In such a case the status quo could be maintained, that is, both parents could then be considered as breadwinners on presentation of the required proof.

It is assumed that the automatic allocation of divorced parents to the married person category costs the State a considerable amount of tax revenue each year and might not be properly targeted as there may be some divorced parents who do not support their children at all. No statistics on single parents were available and the most recent available statistics on divorces were those for 1992. In 1992 there were 28 264 divorces among the White, Coloured and Asian population groups. Central Statistical Service did not have statistics on Black divorces. A total of 36 203 minor children were involved in the above-mentioned divorces (Central Statistical Service - telephonic confirmation). If it is assumed that each divorced couple had minor children, there could then be as many as 28 264 people that are taxed as married persons, while only one parent is providing for the children. (26 per cent of households in South Africa are headed by women (Fair Lady 1995:62).)

This figure only related to one year's divorces. The number of divorced parents being taxed as married persons, while not supporting their children, could be quite significant over time. Assuming that a minor child was a tax advantage in the sense that it entitled the parent to a child rebate and, as a result, to being taxed as a married person until the child was (say) 20 years old, and assuming that the average divorce rate was 28 000 per annum, then, at any given time, there could be as many as 560 000 divorced parents being taxed as married persons, while not necessarily providing for their children.

Therefore, only married people supporting a spouse (where the spouse earns less than a certain amount, for example the R10 000 currently allowed) or single parents actually supporting their children, should be considered to be breadwinners. The term breadwinner already excludes certain taxpayers who automatically fell into the "married person" category but were really unmarried persons, such as widows and widowers without dependants. This definition should, in time, be broadened to include all breadwinners, such as taxpayers who also support other family members.

Having two taxpayer categories, one for breadwinners and one for other taxpayers, would automatically remove the problems of gender discrimination in terms of the constitution from the Act. Breadwinners are determined in a non-discriminatory manner and tax relief for them would remove the horizontal inequities presently existing against them. The disadvantage of this system might lie in the proof required in order to be classified as a breadwinner. But then, the Receiver of Revenue's offices did not appear to have any problems with the proof required to be classified as a married person and it is assumed that the matter could also be solved in a similar fashion.

The onus is on the taxpayer to make full and accurate disclosure of relevant matters and failure to do so could involve substantial tax penalties (Sections 75, 76 and 104 of the Act). It would not be necessary to physically submit relevant receipts or proof, but taxpayers would have to retain these for the prescribed retention period.

7.4.2.2 The nature of the recommendation

Married couples with two breadwinners (both earning gross income in excess of R10 000) would fall into the category of "other taxpayers" and both husband and wife would then be taxed at "unmarried person" rates. Sole breadwinners would then be taxed at "breadwinner" rates, the rates used for married persons until the 1995 year of assessment.

The option to aggregate should be retained for married couples where one spouse earns gross income of less than R10 000 or another inflation-linked limit. Aggregation may not always be to the couple's advantage. The option should be available to both the husband and the wife, if the other spouse earns less than the limit and not just if the husband earns the lower amount, as was the case in the past. They should request aggregation when they submit their tax returns. Their returns would then have to be submitted together, as in the case of Recommendation One (paragraph 7.4.1.1) in order to facilitate administrative difficulties. The married couple's joint tax would then be calculated at "breadwinner" tax rates.

It should be noted that taxes payable by the unmarried person and the married person as breadwinner (100:0 combination) remain the same under Recommendation Two. The breadwinner does not pay less tax but equity lies in the fact that the comparative taxes are different for the other combinations.

A comparison of the differences in the tax thresholds and the taxes payable between the legislation for the 1993 to 1995 years of assessment and Recommendation Two should illustrate the effect of the recommendation on the taxes payable and show that there is more equity in the tax thresholds in terms of Recommendation Two than in the tax thresholds of the legislation for 1993 to 1995.

COMPARISON OF TAX THRESHOLDS 1993/94/95 AND RECOMMENDATION TWOUnmarried person/income

<u>combination married couple</u>	<u>1993/94/95</u>	<u>Recommendation Two</u>
	R	R
Unmarried person	11 000	11 000
Married couple:100:0	13 000	13 000
80:20	16 000	13 000
70:30	18 000	13 000
60:40	14 000	13 000
50:50	11 000	13 000
40:60	9 000	13 000
30:70	8 000	13 000
20:80	7 000	14 000
0:100	6 000	13 000

(Extracted from Appendix I-2)

Although the thresholds were higher where the husband earned most of the couple's income (R16 000 and R7 000 for the 80:20 and 20:80 combinations respectively), under Recommendation Two the couple would start paying tax on R13 000 taxable joint income for most income combinations. The 20:80 combination gains the most as here the threshold is R14 000.

A detailed comparison of the 1993-1995 taxes payable by the married couple and the taxes payable according to Recommendation Two is found in Appendix I-2. The table below merely illustrates the actual effect of Recommendation Two on taxes payable by the married couple. As can be seen from the table, Recommendation Two would result in higher taxes for the married couple for most incomes and most income combinations.

TAXES PAYABLE BY MARRIED COUPLE 1993-95 AND RECOMMENDATION TWO

<u>Taxable income</u>	<u>80:20</u>		<u>50:50</u>		<u>0:100</u>	
<u>married couple</u>	<u>1993-95</u>	<u>Rec 2</u>	<u>1993-95</u>	<u>Rec 2</u>	<u>1993-95</u>	<u>Rec 2</u>
R	R	R	R	R	R	R
10 000	Nil	Nil	Nil	Nil	900	Nil
15 000	Nil	475	425	475	1 950	475
20 000	675	1 475	900	1 475	3 150	1 475
30 000	2 455	3 575	2 425	1 800	5 950	3 575
50 000	7 275	9 975	7 075	7 000	13 350	9 975
100 000	25 625	27 540	23 325	25 200	33 350	31 075
150 000	45 625	47 540	43 725	46 580	53 350	52 575
200 000	66 425	68 340	64 425	68 080	73 350	74 075

(Extracted from Appendix I-2)

For the 80:20 combination the increase is large from approximately R13 000 taxable income but on R200 000 the increase is only approximately one per cent. The taxes payable for the 50:50 combination are higher up to a taxable income of approximately R22 000. For the 50:50 combination on R200 000 the increase is only two per cent. There would be a decrease of approximately half a per cent on R200 000 for the 0:100 combination.

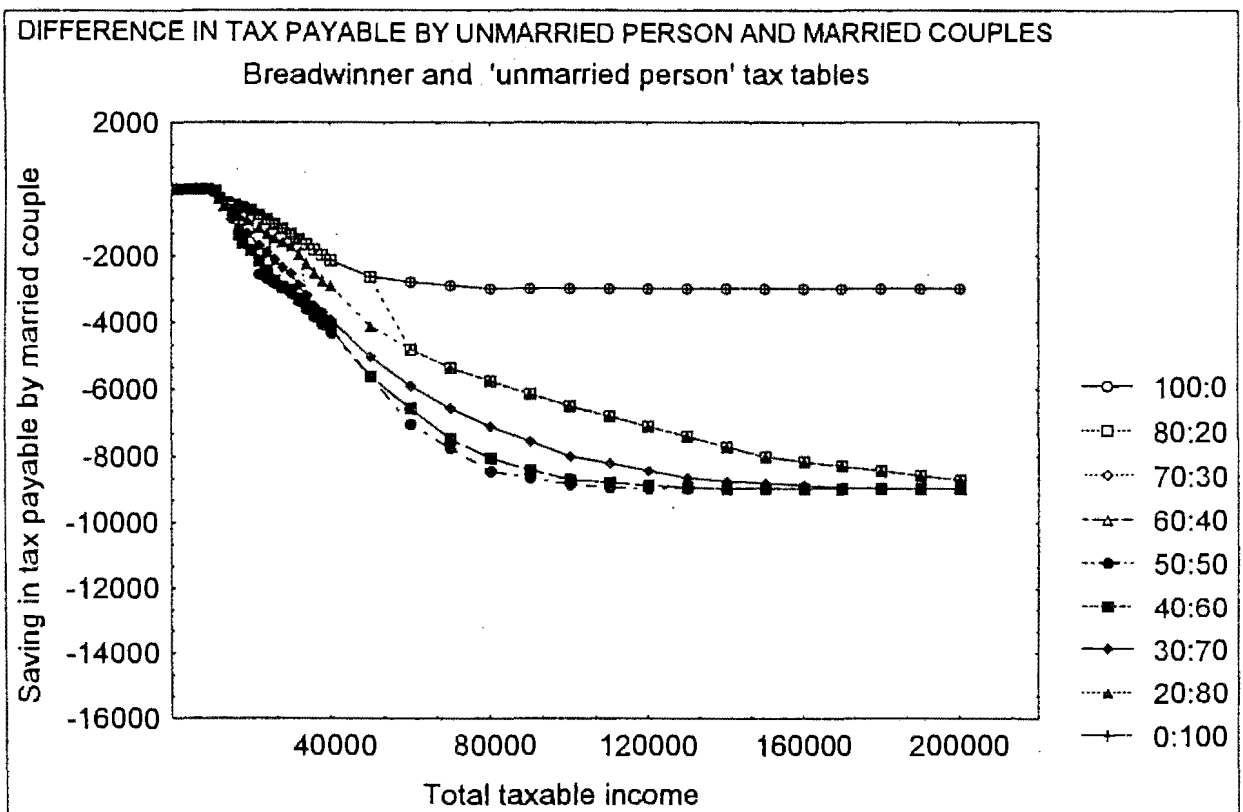
The tax rates could be adjusted downwards to accommodate some of the increases but it would require the determination of the number of breadwinners in order to calculate the cost to the State. The comparison of the taxes serves merely to indicate the direction of increase or decrease of the tax payable. What is important here is that there would be more horizontal equity than in 1994 and 1995.

7.4.2.3 Advantages of the recommendation

Married women and married persons with spouses who also earn income might feel disadvantaged as they would be taxed at the

higher unmarried person rates. The married woman's tax thresholds would, however, rise and she would have a higher rebate, but the higher maximum marginal rate would apply to the higher income. This would seem fair towards both the single breadwinners and the unmarried persons. The two-breadwinner married couple would still have the advantage of splitting their incomes and the wife would have the higher rebate of the unmarried person as well. In total the married couple's rebates would increase by R775 ($2 \times R1\,950 = R3\,900$, versus $R2\,225 + R900 = R3\,125$).

Assuming that all spouses who could aggregate their incomes would request aggregation, the differences between the taxes payable by the married couple and the unmarried person would give rise to the following graph:



(Extracted from Appendix H-2)

It is clear from the graph that not all the couples would request aggregation as the joint tax of certain single-breadwinner couples is still higher (and often substantially

higher) than for double-breadwinner couples, when compared with single taxpayers. There is, however, equity in the treatment of single breadwinners as Recommendation Two does not discriminate between the spouses who earn the income (the 100:0 and 0:100 combination married couples pay the same tax).

It is expected that the cost of implementing this reform would be minimal as a great number of married persons would now pay more tax to make up for what the State loses from the lower-income married women.

The onus would be on breadwinner taxpayers to prove that they are indeed breadwinners, on the same basis as in paragraph 7.4.1. This could affect the certainty of the taxpayer (as the Receiver of Revenue could always query the return), but as long as a taxpayer fell within the parameters for breadwinners set by the Act, he or she would be a breadwinner. Certainty for the Receiver of Revenue, however, is more difficult to determine as there do not appear to be firm statistics on the number of breadwinners. The Receiver of Revenue would not be able to calculate a reliable cost for implementing this recommendation. The way to collect and submit taxes would be convenient as the procedures required would remain the same, except for submitting proof of breadwinner status. The Receiver of Revenue would also only have to deal with two sets of rates.

The biggest advantages of the recommendation are that there would be no discrimination on the basis of marital status or gender and provision was made for two breadwinners in a household.

It is difficult to see how taxpayers could capitalise on this reform and only the breadwinners would "gain" from it. It would be to a taxpayer's advantage to prove that he/she is a

breadwinner and the definition thereof should be clearcut and rigorously monitored.

7.4.2.4 Disadvantages of the recommendation

Recommendation Two might, however, not be politically acceptable because, although the plight of one-breadwinner families is known, these breadwinners are not as vociferous as some other pressure groups and lower-income members of the community all consider themselves subjects for aid from the State. Furthermore, all the "married persons" who would become non-breadwinners might feel that they have been treated unfairly and they could form a considerable pressure group.

The removal of widows and widowers without dependants from the most advantageous tax classification could also be a sensitive issue and this might well prejudice politicians against this recommendation. Another disadvantage is that the cost to the Fiscus could not be calculated accurately and the uncertainty of this might discourage acceptance of the recommendation. However, the advantages, namely horizontal equity and non-discrimination, make this recommendation acceptable and outweigh the cost uncertainty.

7.4.3 RECOMMENDATION THREE: ALL TAXPAYERS TAXED AT RATES SUGGESTED BY THE KATZ COMMISSION WITH A FIXED ALLOWANCE FOR BREADWINNERS

The interim report submitted by the Katz Commission contained certain proposals regarding the taxation of individuals in South Africa. These proposals (discussed in Chapter 6) were based in part on the new constitution and on problems

perceived in the system. Chapter 6 concluded, however, that these proposals too would not provide horizontal equity and the Katz Commission did not spell out the provisions for single breadwinners. It did mention that their provisions for single breadwinners were only to the advantage of lower income groups (up to R22 700), but they did not mention specific provisions. As the government gave serious consideration to recommendations of the Katz Commission and as certain of their proposals were incorporated in the 1995 Budget proposals, these could not be ignored in a study of this nature.

The single set of rates proposed would bring equality and delete any gender discrimination from the Act. This would be a good starting point, but adjustments should be made to provide relief (and horizontal equity) to the single breadwinners.

The next recommendation in this study is thus based on the single set of tax rates for all individuals proposed by the Katz Commission. The taxation payable by single breadwinners (as defined in paragraph 7.4.2.1) should, however, be adjusted with a further allowance for dependants.

The adjustment to the taxation payable by single breadwinners could take many forms but the following three variations are considered to be the most suitable. As a separate set of rates would appear to be unconstitutional such an option was not considered here. Firstly, a fixed tax-deductible allowance could be considered (paragraph 7.4.3), or, secondly, an additional rebate could be given in lieu of the allowance (paragraph 7.4.4), or thirdly, as was the case with the married woman's earnings allowance, there could be a percentage reduction in either taxable income or tax payable (paragraph 7.4.5).

If the recommendations of the Katz Commission are implemented, the breadwinner will pay the same tax as all other taxpayers. This tax will have to be adjusted by means of an allowance. The questions are by how much and how? A tax deductible allowance is suggested based on the "cost per person" calculated according to the general information on household costs supplied by the Central Statistical Services. This allowance will be granted once only to persons with dependants and not per dependant as it is not the intention to compensate the taxpayer for all his or her costs but merely to provide the taxpayer with some relief and to place him or her onto a more equitable after-tax basis with taxpayers without dependants.

7.4.3.1 Cost per person for necessary living expenses

The Central Statistical Services published a survey of household expenditure, (South Africa 01-11-01, 1990) and the following table was extracted from Table 2.5 of this publication.

SUMMARY OF AVERAGE ANNUAL EXPENDITURE FOR HOUSEHOLDS

NUMBER OF PERSONS	TOTAL EXPENDITURE	PER PERSON	FOOD, HOUSING MEDICAL & FUEL	PER PERSON	CLOTHES	PER PERSON	INCOME	PER PERSON	IF TWO EARNERS	TAX
ONE	19340	19340	7324	7324	762	762	20327	20327		5174
TWO	52988	26494	19223	9611.5	1706	853	54195	27097.5	27097.5	17706
THREE	52158	17386	19295	6431.666	1825	608.3333	52046	17348.66	26023	17150
FOUR	57689	14422	22351	5587.75	2219	554.75	48052	12013	24026	17787
FIVE	44652	8930.4	18098	3619.6	1787	357.4	45502	9100.4	22751	13203
TOTAL AVERAGE	40707		15596		1582		41774		20887	12461
AVERAGE OF :										
FIRST FOUR	182175	18217.5	68193	6819.3	6512	651.2	174620	17462		57817
FIRST FIVE	226827	15121.8	86291	5752.733	8299	553.2666	220122	14674.8		71020
THREE/FOUR	109847	15692.42	41646	5949.428	4044	577.7142	100098	14299.71		34937

(Extracted from South Africa, 1990)

This was a survey of household expenditure but, although the household income was given, it was not possible to determine which households had more than one breadwinner.

For quantification of the allowance only certain cost items were considered as necessary expenses, namely food, housing, medical expenses and fuel. If the cost per person (for these "necessary" expenses) is taken, it is clear that large discrepancies exist depending on the size of the household.

The cost, on average, to the one-person household of the above 'necessary expenses' was R7 324 while the cost to the two-person household was R9 611 per person. It is assumed that most two-person households also had two breadwinners as the income per household is more than double (R54 195 compared with R20 327 for the one-person household). The three-person household had a lower income and lower expenses and it is assumed that these households usually consist of one child and two adults, but not always two breadwinners. The three-person household only spent an average of R6 431 per person, and the four-person household an average of R5 587 per person. The average per person for the total "necessary" costs for a one-person to a four-person household might give a more reasonable cost per person. This amounts to R6 819 per person, whereas for the one-person to five-person household the average is R5 752 per person. The three-person and four-person households were considered to be the most representative as there are more of these households than any other household groups and the average cost per person taken over both three and four person households is R5 949 per person. It would then be reasonable to take an amount of R6 000 per annum to be the cost per person of "necessary" expenses.

7.4.3.2 The nature of the recommendation

An allowance of R6 000 is therefore suggested as a deduction from the taxable income of the breadwinner with dependants. The tax payable was calculated according to the rates

recommended by the Katz Commission, but for all breadwinners as defined in paragraph 7.4.2.1, an amount of R6 000 was deducted from taxable income before calculating the tax. (Refer Appendix G-3). Where the second spouse had R10 000 or less gross income the incomes were aggregated and the joint income adjusted by the allowance of R6 000. It should be noted that the R10 000 maximum could change as tax rates change and it is assumed that the R10 000 limit was determined based on factors such as the cost per dependent spouse in conjunction with the differentials in the tax rates between a married person and a married woman. With the new tax rates proposed by the Katz Commission, the limit could be different but without access to the exact number of breadwinners and the other information used to calculate this limit, it was kept at R10 000 for the purposes of this calculation.

The tax thresholds would change as follows for this recommendation. Note that the tax thresholds are lower for all income tax groups. The Katz Commission did refer to a rebate but did not quantify it and therefore it was not taken into account here.

COMPARISON OF TAX THRESHOLDS 1993-95 AND RECOMMENDATION THREE

<u>Unmarried person/income</u>		<u>1993/94/95</u>	<u>Recommendation 3</u>
<u>combination married couple</u>		R	R Unmarried
person	11 000	1 000	
Married couple:100:0		13 000	7 000
80:20		16 000	7 000
70:30		18 000	7 000
60:40		14 000	7 000
50:50		11 000	7 000
40:60		9 000	7 000
30:70		8 000	7 000
20:80		7 000	7 000
0:100		6 000	7 000

(Extracted from Appendix I-3)

The difference in threshold between married couples and the unmarried taxpayer is as a direct result of the breadwinner allowance of R6 000. At the income where the thresholds apply, that is, where the married couple could start paying tax, the second spouse earned less than R10 000, the couple's incomes were aggregated and the R6 000 deduction was allowed.

TAXES PAYABLE: MARRIED COUPLE 1993-95 AND RECOMMENDATION THREE

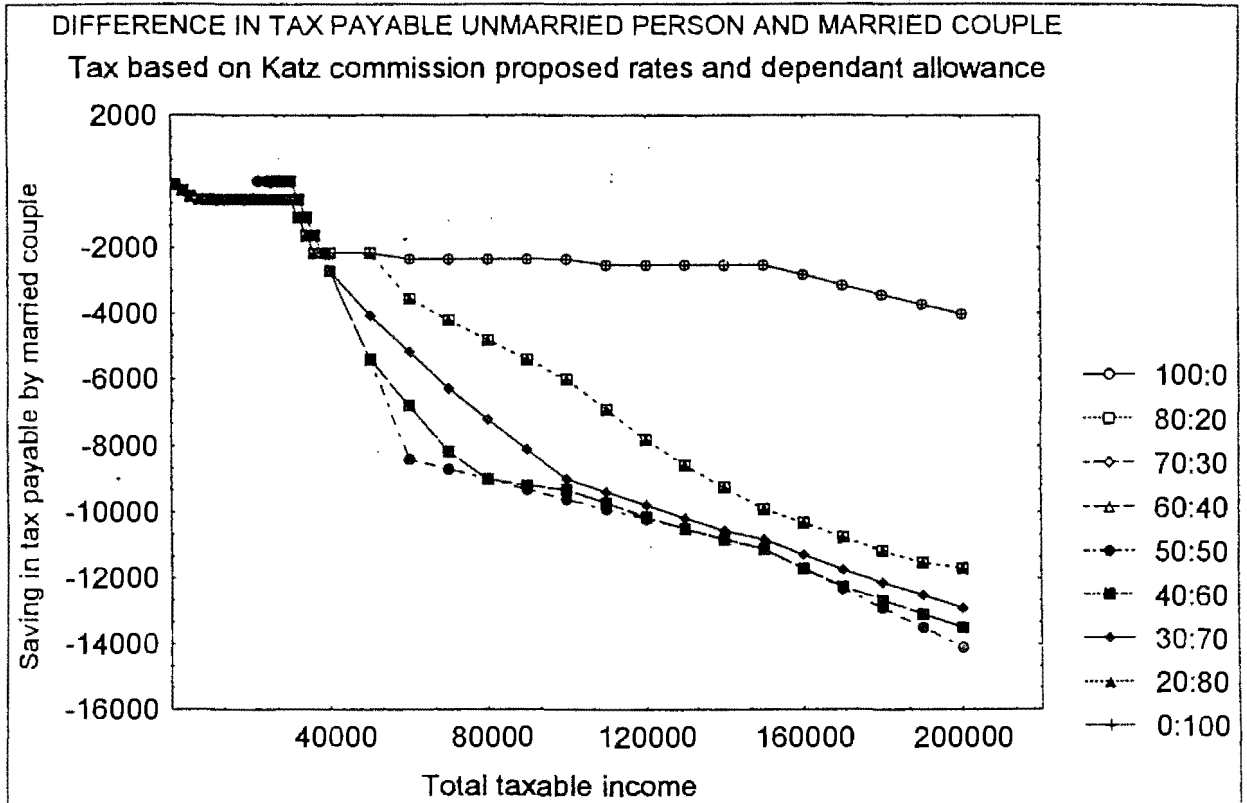
<u>Taxable income</u>	<u>80:20</u>		<u>50:50</u>		<u>0:100</u>	
<u>married couple</u>	<u>1993-95</u>	<u>Rec 3</u>	<u>1993-95</u>	<u>Rec 3</u>	<u>1993-95</u>	<u>Rec 3</u>
R	R	R	R	R	R	R
10 000	Nil	360	Nil	360	900	360
15 000	Nil	810	425	810	1 950	810
20 000	675	1 260	900	1 260	3 150	1 260
30 000	2 455	2 160	2 425	2 700	5 950	2 160
50 000	7 275	7 740	7 075	4 500	13 350	7 740
100 000	25 625	23 400	23 325	19 800	33 350	27 060
150 000	45 625	40 500	43 725	39 300	53 350	47 880
200 000	66 425	61 200	64 425	58 800	73 350	68 880

(Extracted from Appendix I-3)

As the same tax rates are applicable to husband and wife, both the 100:0 and the 0:100 combinations of taxable income for the married couple would, under this recommendation, pay the same taxes. The same applies to the 80:20 and 20:80 combinations and for all the other combinations. It is irrelevant whether the husband or the wife earns a certain proportion of their joint income as they are both taxed at the same rates. All married couples where the second spouse earns R10 000 or less gross income, however, were jointly taxed in the above table, although it is possible that not all of the couples would choose aggregation.

7.4.3.3 Advantages of the recommendation

The main advantage of this recommendation is that it provides both equality and no discrimination on grounds of gender or marital status. The R6 000 dependant allowance also attempts to provide horizontal equity to the group most discriminated against in proposals of the Katz Commission and in previous years, namely single breadwinners (or one-breadwinner families).



{Extracted from Appendix H-3}

It should be noted from the above graph that finally both combinations of husband/wife (that is the 80:20 and 20:80; 70:30 and 30:70, 60:40 and 40:60 and so forth) pay the same tax, irrespective of whether the husband or the wife earn any specific proportion of income. This is already a move towards greater horizontal equity as the tax of the 70:30 combination (for example) of one household could be compared with that of another household, with a 30:70 combination.

As it was assumed that all couples, where the second spouse earns R10 000 or less, would choose to aggregate their incomes and deduct the R6 000 allowance, this lead to the decrease in the difference for the lower income groups and the distortion in the graph. Couples should, of course, carefully consider aggregation and only choose it when it is to their benefit.

There would, however, still appear to be too big a difference between the taxes payable by double-income married couples and by single breadwinners. This is clear from the graph, as the graph lines for the double-income married couple are far below those of single breadwinners. It does, however, represent an attempt to provide some relief for the breadwinners, although it might not provide perfect horizontal equity.

This allowance should be reviewed regularly and adjusted for inflation and other cost of living expenses where necessary. This, together with the rates proposed by the Katz Commission, would provide a large measure of equity.

7.4.3.3 Disadvantages of the recommendation

According to the Katz Commission, the implementation of the single set of rates and the reform of the SITE system would cost R1,2 billion. The Commission was prepared to offer an additional R0,5 billion for single breadwinners. From the married person statistics of the Commissioner of Inland Revenue, approximately 2 million married persons qualify as single breadwinners but possibly as many as 500 000 divorced parents do not provide for their children and the widows and widowers who do not qualify as breadwinners have not been deducted. It has also been assumed that all couples who can request aggregation would do so. Thus, if approximately

1,5 million breadwinners deduct R6 000, and the average taxpayer earns R40 000 at a current average rate of 22,5 per cent (South Africa 1994:par 8.1.1), it would cost approximately R2 billion to implement Recommendation Three. The rates could, of course, be adjusted upwards to accommodate this allowance.

The new rates could be considered to be so low that all taxpayers (even single breadwinners) would be prepared to pay these taxes. Taxpayers continuously make comparisons and complaints would certainly ensue from the rates as postulated by the Katz Commission, as these only provide relief for breadwinners earning an income of up to R22 700.

As it would be to the benefit of taxpayers to be single or sole breadwinners, controls in this respect should be strict. Breadwinners should be carefully defined (paragraph 7.4.2.1) and they should prove single breadwinner status by submitting the relevant documents, such as marriage certificates, proof of spouse's income, birth certificates of children and divorce settlements (whichever is applicable). The allowance is, however, not so large that it would induce people to marry, have children or stop the second spouse from working.

The husband, who was the married person of the double-income married couple, would be worst off in terms of tax payable, but the rates proposed by the Katz Commission are so low that most taxpayers would benefit from the new rates. A rate increase should, however, be considered in order to compensate for the R6 000 allowance.

If the proposals of the Katz Commission are accepted by government it would be unpopular from the point of view of the sole breadwinners and could be considered as a politically unattractive move. The dependant/breadwinner allowance would

"sweeten the pill" in this respect and provide more horizontal equity for taxpayers.

7.4.4 RECOMMENDATION FOUR: ALL TAXPAYERS TAXED AT RATES SUGGESTED BY THE KATZ COMMISSION WITH A REBATE FOR BREADWINNERS

The biggest problem with granting a deductible allowance for breadwinners and people with dependants is that an assessed loss could be created with these allowances, unless specifically prohibited by the Act. These losses could represent liabilities for Inland Revenue in the sense that it might involve a refund of PAYE overpaid and also additional administrative work.

7.4.4.1 The nature of the recommendation

A refinement of Recommendation Three would be to provide breadwinners with a rebate (which the Katz Commission did not specify, but a standard rebate of R2 625 for all taxpayers was proposed in the 1995 Budget) instead of the allowance suggested in paragraph 7.4.3. This rebate cannot create an assessed loss and is deductible from tax payable and not from taxable income. Apart from this, the working of Recommendation Four would be the same as for Recommendation Three.

The rebate could still be based on the household cost of living expenses, as in paragraph 7.4.3.1, but would only be available where the taxpayer is paying tax and could not create an assessed loss. A rebate was calculated at the 1994/1995 maximum marginal rate of tax on the R6 000 living

expenses, that is 43 per cent of R6 000, namely R2 580 (but rounded off to R2 500).

The cost to Inland Revenue might be more than with the previous recommendation, but the administrative burden would be more or less the same as regards the auditing of breadwinner's claims. Politically it should have the same positive effect. It should also not provide a material incentive to marry, divorce or stop working.

The rebate would have a significant influence on the taxes payable and especially on the tax thresholds as it would raise these considerably. This would promote vertical equity but because the thresholds would differ for the different income combinations this would affect horizontal equity negatively.

COMPARISON OF TAX THRESHOLDS 1993-95 AND RECOMMENDATION FOUR

Tax unit/income

<u>combination married couple</u>	<u>1993/94/95</u>	<u>Recommendation 4</u>
	R	R
Unmarried person	11 000	1 000
Married couple:100:0	13 000	28 000
80:20	16 000	28 000
70:30	18 000	28 000
60:40	14 000	26 000
50:50	11 000	22 000
40:60	9 000	26 000
30:70	8 000	28 000
20:80	7 000	28 000
0:100	6 000	28 000

(Extracted from Appendix I-4)

The biggest difference in thresholds for married couples is that between the 50:50 combination and the others. It should be noted that the thresholds that are so high are only those applicable to single-breadwinners. The double-breadwinners

where both spouses earn more than R10 000 gross income would all have a threshold of R1 000, identical to the unmarried person's threshold. Although this represents a large increase in the thresholds, it is only applicable to a small proportion of taxpayers.

The high thresholds might indicate that the rebate is too high and if the average tax rate on income as specified by the Katz Commission (refer paragraph 7.4.3.4) namely 16 per cent, is applied to the R6 000 living costs, a rebate of only approximately R1 000 would be indicated. This would, of course, lower the tax thresholds correspondingly.

TAXES PAYABLE BY MARRIED COUPLE 1993-95 AND RECOMMENDATION FOUR

<u>Taxable income</u>	<u>80:20</u>		<u>50:50</u>		<u>0:100</u>	
<u>married couple</u>	<u>1993-95</u>	<u>Rec 4</u>	<u>1993-95</u>	<u>Rec 4</u>	<u>1993-95</u>	<u>Rec 4</u>
R	R	R	R	R	R	R
10 000	Nil	Nil	Nil	Nil	900	Nil
15 000	Nil	Nil	425	Nil	1 950	Nil
20 000	675	Nil	900	Nil	3 150	Nil
30 000	2 455	200	2 425	2 700	5 950	200
50 000	7 275	7 400	7 075	4 500	13 350	7 400
100 000	25 625	23 400	23 325	19 800	33 350	26 900
150 000	45 625	40 500	43 725	39 300	53 350	47 900
200 000	66 425	61 200	64 425	58 800	73 350	68 900

(Extracted from Appendix I-4)

It should be noted from the table above that, although thresholds for breadwinners are higher than in Recommendation Three, the taxes payable on the higher incomes are almost the same as for the previous recommendation. The reason for this is because the maximum marginal rate was applied to the allowance (Appendices G-3 and G-4). It should also be noted that, with the exception of the 50:50 combination, the taxes payable by the other combinations (Appendix G-4) are more or

less the same for the same joint taxable incomes. This implies greater horizontal equity.

The 100:0 and 0:100 income combinations still pay the most tax of all the married couple groups: R68 900 on R200 000 compared with R61 200 for the 80:20/20:80 combinations and more than R10 000 (5 per cent of taxable income) more tax than that payable by the 50:50 income combination. On a taxable income of R100 000 the difference in tax payable between the 50:50 and the 100:0/0:100 combinations is R7 100 (7 per cent more tax payable by single breadwinners), on taxable income of R50 000 the difference is 5,8 per cent, but the taxes payable by the 100:0/0:100 and the 80:20/20:80 combinations are the same from a taxable income in excess of R50 000 (Appendices G-4, I-4).

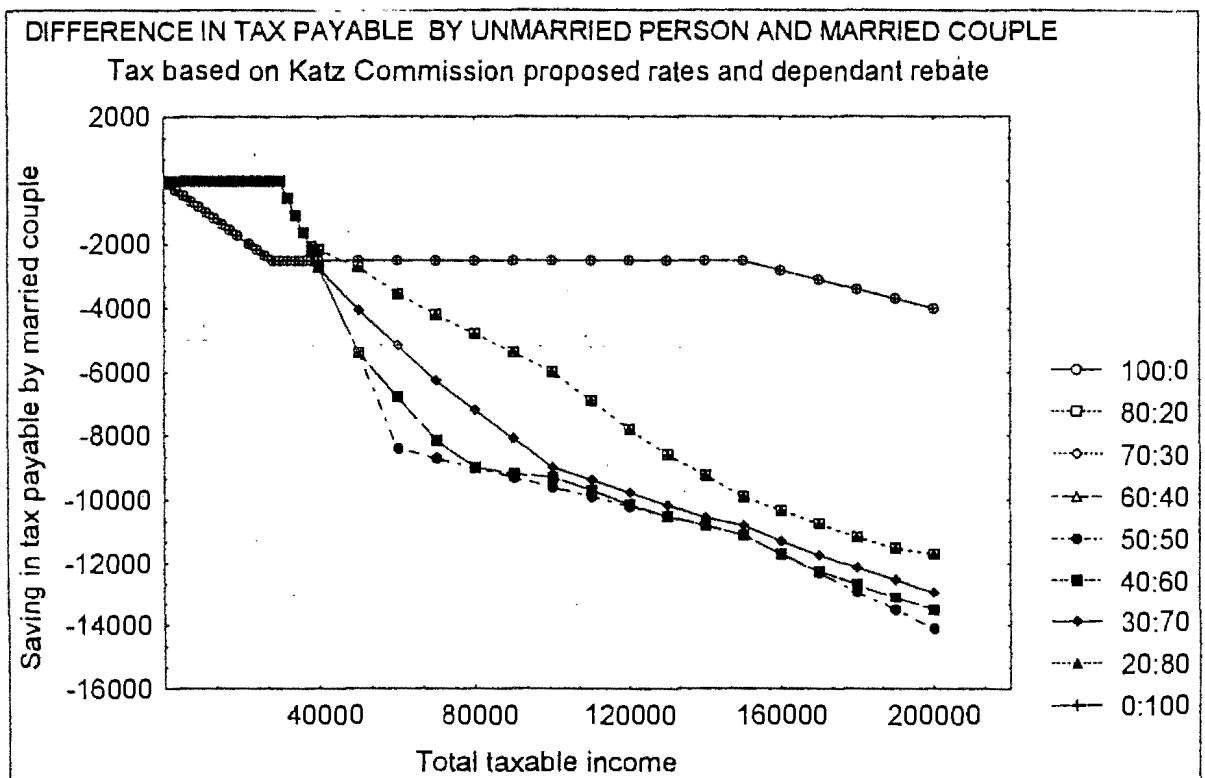
7.4.4.2 Disadvantages of the recommendation

There are still differences in tax payable between the various income combinations, as noted above.

The other disadvantages are the same as for the previous recommendation, namely the fact that married couples where one spouse earns R10 000 or less gross income can choose to aggregate their income and so cause administrative problems for Inland Revenue. The cost to the Fiscus of the rebate and loss of certainty for Inland Revenue relating to budgeted income are further disadvantages. The cost of the rebate for the approximately 1,5 million married persons would be R3,7 billion (1,5 million taxpayers at R2 500), which is a material amount and considerably more than for Recommendation Three.

7.4.4.3 Advantages of the recommendation

The graph clearly shows the impact of Recommendation Four on the horizontal equity of the taxation of individuals. It is almost identical to the graph of Recommendation Three. There is still a considerable difference between the graph lines of the single-breadwinners (which do, however, coincide) and the double-breadwinner categories. It represents a definite improvement on the rates proposed by the Katz Commission without any provision for single-breadwinners, as their incomes would then have been taxed in the same way as for the unmarried taxpayer. The double-breadwinner graph lines coincide for the same combinations (80:20/20:80, 70:30/30:70, et cetera) which denotes an improvement in horizontal equity. All these graph lines are also close together.



(Extracted from Appendix H-4)

The zero difference for the 60:40/40:60 and 50:50 combinations occurs for taxable incomes on the tax thresholds and also at

the points where the rebate is no longer applicable, that is where the second spouse's earnings are more than R10 000 and the couple is no longer jointly taxed.

Inland Revenue would also have less administrative work with this recommendation than in the case of Recommendation Three as the rebates could not cause a loss that has to be carried forward. The system would be relatively simple and economical to implement and there would be certainty for both taxpayers and tax collectors. Taxpayers would not necessarily capitalise on this reform as doing so would not provide such a great advantage (for the same reasons as for Recommendation Three). Politically, it would also be attractive as politicians could show that they care about the breadwinners.

7.4.5 RECOMMENDATION FIVE: ALL TAXPAYERS TAXED AT THE RATES SUGGESTED BY THE KATZ COMMISSION BUT WITH A PROPORTIONAL ALLOWANCE FOR BREADWINNERS

7.4.5.1 Nature of the recommendation

The previous two recommendations, although based on rates proposed by the Katz Commission, made provision for single breadwinners by either a fixed allowance or a fixed rebate. This was clearly visible in an almost horizontal graph line for the single breadwinners on the graphs. To bring the single-breadwinner line closer to the lines of the double breadwinners would be more equitable towards single breadwinners and would require the granting of a proportional allowance to them.

An allowance to breadwinners based on a percentage of the breadwinner's taxable (joint) income would appear to provide

the most equity. The question is what percentage to use? With reference to Chapter 3 and the 20 per cent differential set there between unmarried persons and people with dependants (United States of America), and the 20 per cent married woman's earnings allowance provided in South Africa in 1987, a 20 per cent deduction from taxable income was taken to be the "breadwinner's allowance" for Recommendation Five.

A pure 20 per cent allowance would, however, discriminate against the lower income breadwinners and the R6 000 living costs, as defined in paragraph 7.4.3.1, would still be a minimum requirement. The allowance for Recommendation Five is thus: 20 per cent of the breadwinner's taxable income or R6 000, whichever is the greater. "Breadwinner" would still be defined according to the definition in paragraph 7.4.2.1. Breadwinners would have to submit proof of their qualification as such, request breadwinner status and submit the second spouse's income tax return together with their own. On assessment, the allowance would then be deducted from their taxable incomes.

COMPARISON OF TAX THRESHOLDS 1993-95 AND RECOMMENDATION FIVE

<u>Unmarried person/income</u>	<u>1993/94/95</u>	<u>Recommendation 5</u>
<u>combination married couple</u>	R	R
Unmarried person	11 000	1 000
Married couple:100:0	13 000	7 000
80:20	16 000	7 000
70:30	18 000	7 000
60:40	14 000	7 000
50:50	11 000	7 000
40:60	9 000	7 000
30:70	8 000	7 000
20:80	7 000	7 000
0:100	6 000	7 000

(Extracted from Appendix I-5)

The thresholds are the same as for the R6 000 fixed allowance for breadwinners in Recommendation Three. This is horizontally more equitable as all the thresholds are the same.

For the lower income groups this would appear to be a more onerous tax than previously, but it must be remembered that the Katz Commission referred to a rebate designed to phase in taxes on taxable incomes up to R22 700.

TAX PAYABLE BY MARRIED COUPLE 1993-95 AND RECOMMENDATION FIVE

<u>Taxable income</u>	<u>80:20</u>		<u>50:50</u>		<u>0:100</u>	
<u>married couple</u>	<u>1993-95</u>	<u>Rec 5</u>	<u>1993-95</u>	<u>Rec 5</u>	<u>1993-95</u>	<u>Rec 5</u>
R	R	R	R	R	R	R
10 000	Nil	360	Nil	360	900	360
15 000	Nil	810	425	810	1 950	810
20 000	675	1 260	900	1 260	3 150	1 260
30 000	2 455	2 160	2 425	2 700	5 950	2 160
50 000	7 275	6 300	7 075	4 500	13 350	6 300
100 000	25 625	23 400	23 325	19 800	33 350	21 600
150 000	45 625	40 500	43 725	39 300	53 350	37 800
200 000	66 425	61 200	64 425	58 800	73 350	54 600

(Extracted from Appendix I-5)

The taxes are lower than in the 1993 to 1995 years of assessment from taxable incomes of R19 000 (100:0 combination), R28 000 (80:20 and 70:30), R34 000 (60:40 and 50:50), R32 000 (40:60), R11 000 (30:70), R8 000 (20:80) and for the 0:100 combination the tax payable is less from the first rand of taxable income (refer Appendix I-5). There is also a definite improvement in the taxes payable by the married woman as breadwinner, by the married person/husband as breadwinner and by the other double breadwinners, as seen from the table summarised above.

7.4.5.2 Disadvantages of the recommendation

The biggest disadvantage would be the cost to the Fiscus, as this recommendation would be more expensive than the previous two.

Referring to Appendix E-2, if it is assumed that for all the married women there is a married person paying tax (even though she could have a non-taxpaying husband and she did not elect to be taxed as a married person), then the percentage of married persons with a spouse (married woman) would be approximately 25 per cent. That means that approximately 75 per cent of married persons would be able to claim the 20 per cent allowance. That is, approximately 2,097 million married persons minus approximately 500 000 divorced persons who should not claim a breadwinner allowance, is equal to 1,597 million married persons (that is, 57 per cent of the total of all married persons) who would be entitled to the allowance. A 20 per cent breadwinner allowance on 57 per cent of the total tax collected from married persons would be R2,92 billion which could be granted as a breadwinner allowance.

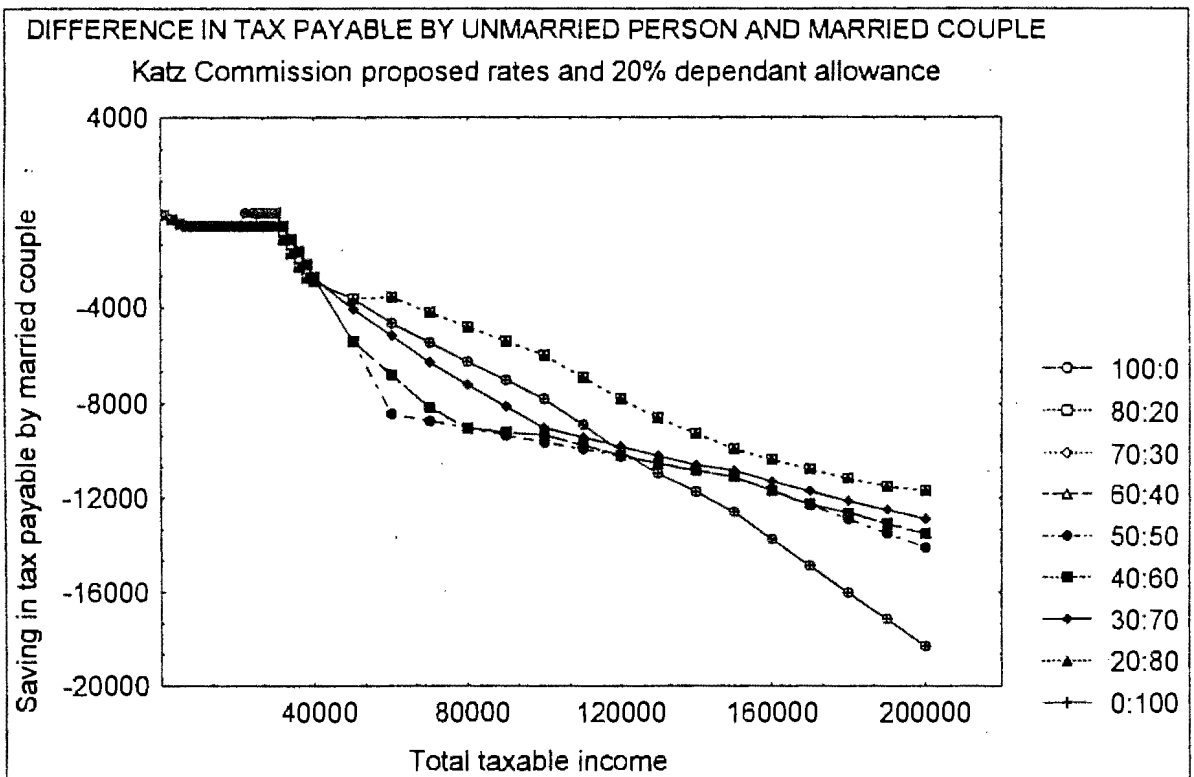
The above is a very broad estimate and it rests upon the assumption that all married women have spouses (married persons) paying tax, which might not be the case. The number of divorced persons not being able to claim the allowance is an estimate (see paragraph 7.4.2.1). The number of widows and widowers not able to claim the allowance has not been deducted, as it was not possible to estimate this number.

Another disadvantage of this recommendation might be the resistance to it by other taxpayers. It is clear from the above tables that the breadwinners would have a considerable tax advantage over other taxpayers and there is the possibility that the low tax rates might have to be increased

to pay for these allowances. This might mean that this recommendation would not be such an attractive reform politically.

This recommendation might also encourage taxpayers to capitalize on it as it would be increasingly attractive to be considered a breadwinner. Married couples with dependent children and with both spouses earning income, might find it advantageous to divorce so that the spouse earning the biggest income of the two could be considered the breadwinner and claim the allowance. The other spouse would not be affected as the tax rates are fixed. The 20 per cent "tax-free" income might also mean that a spouse, who does not earn that much, might stop working altogether so that the other spouse could be considered the breadwinner and claim the allowance.

7.4.5.3 Advantages of the recommendation



(Extracted from Appendix H-5)

This reform would come closest to providing horizontal equity for the married couple. It would be the ideal solution as it would almost amount to two different sets of rates.

The tax payable by the breadwinner categories (100:0 and 0:100) are now close to the tax payable by the other double-earner groups. From the above graph, it is clear that all the married couple graph lines are close together and are all moving in the same direction. Up to a taxable income of approximately R120 000 the single-breadwinner graph lines are almost midway between the other lines, but thereafter the single breadwinners pay the least tax of all the tax groups. The percentage of the allowance might even be decreased or phased out from here as this would bring the single breadwinner line closer to the lines of the other married couples and closer still to horizontal equity. This recommendation would come the closest to providing horizontal equity now that separate taxation has been introduced.

Horizontal equity is almost the only advantage of Recommendation Five, but it represents such a great improvement, that it could be considered reason enough to implement this recommendation.

This study therefore favours Recommendation Five as the best solution to the problem of horizontal equity, should the recommendations of the Katz Commission be implemented. The percentage could be changed and the other factors refined when the number of single breadwinners are known or can be calculated more accurately, as this would affect the cost to the State.

7.4.6 FINAL RECOMMENDATIONS

From the five recommendations made above, it is clear that to change the legislation to accommodate certain persons or aspects of taxation is not an easy or simple matter. Many factors have to be taken into account and the fact that not all statistics of taxpayers and their circumstances are known makes it difficult, and sometimes impossible, to calculate the exact consequences of a recommendation.

Should the tax rates not have been changed (that is should the three sets of tax rates for the married person, unmarried person and married woman have remained), Recommendation One with the transferable allowances would, as an interim measure, bring about more horizontal equity in the short term. The three sets of tax rates were, however, contrary to the non-discriminatory clause in the constitution and this recommendation would, therefore, only be acceptable in the short term.

Recommendation Two would provide two sets of rates which do not discriminate on the basis of gender or marital status, but which provide breadwinners with a separate set of tax rates more favourable than those applicable to other taxpayers. This would provide more horizontal equity. If the rates applicable to the 1993-1995 years of assessment are used, this is the recommendation which would most likely be in line with the constitution and still provide horizontal equity for both one-breadwinner and two-breadwinner couples.

The Katz Commission proposed one set of rates for all taxpayers. This would comply with the requirements of the constitution, but would not make provision for the one-breadwinner family. Although the rates are mostly more favourable and most taxpayers would pay less tax in terms of

the recommendations of the Katz Commission, the fact remains that taxpayers compare their tax burdens, and single breadwinners pay more tax, in relation to their responsibilities towards their dependants, than other married taxpayers. An allowance to them should provide the horizontal equity that is lacking. Recommendations Three and Four both provide the same deduction in tax in two different applications and would be more economical and probably easier to implement than Recommendation Five. The last recommendation, however, would provide the most horizontal equity. This recommendation, or an adaptation thereof, should be considered.

7.5 OTHER SUGGESTIONS FOR IMPROVING HORIZONTAL EQUITY

One of the great competitive challenges of the nineties will be much closer to home than most global companies imagine. With so many moms and their spouses at the office, the work force of tomorrow is foremost in the minds of the work force of today. ... Women make up almost half the U.S labour pool, and losing their talents to home and hearth is something companies can ill afford.

(Loeb 1991:4)

The enormous increase in working married women and in working married mothers over the last few decades has not only created problems with the taxation of these women, but other aspects (which could even be considered as social aspects) also have implications for taxation. As the number of women returning to work after or shortly after the birth of their children increased drastically, this meant that the parents had to make provision, in a responsible manner, for their children during

work hours. This was still considered to be the mother's responsibility.

The increasing economic independence of women has upset the traditional marriage exchange in which a wife trades her household work for her husband's economic support ... society today draws increasingly on women's paid labor while continuing to rely on their unpaid home work.

(Spitze & South 1986:11)

Work family conflicts arise because, as women enter paid employment, their male partners tend not to assume an equitable share of the unpaid labour of housework, child care and home management.

(McKeen & Bujaki 1994:29)

To have horizontal equity clearly does not only mean that working women, breadwinners or any other type of taxpayer should not be discriminated against, but also that other considerations, which are inequitable in the workplace and which could affect the taxation and tax treatment of these taxpayers, should also be considered. It is not equitable merely to tax married women on a par with other taxpayers. The working married couple with children should be placed in a similar position to the working married couple without children. As determined in Chapter 2, the family is the unit for measuring horizontal equity.

Day care is listed as a women's issue, but it is more properly a social issue: if today's children don't get emotionally supportive care when their mothers are at work, all society will be the ultimate loser. ... The root principle of income tax is that a deduction should be allowed to the extent that it was incurred to generate taxable income. Working mothers (and single fathers) can do their jobs only if the home fires are kept burning.

Recognizing these costs through tax legislation would do more for equality in the workplace than any heavy-handed resort to affirmative action.

(Coxe 1984:218)

Although South African tax legislation does not, in general, grant the deduction of private costs as suggested above, the provision for children is an urgent social need and is linked to the necessity for equity (and equality). Tax concessions for the children of working parents should, therefore, be considered.

Some may contend that provision for children is actually contrary to the equality provisions and therefore contrary to the constitution, but Kramer (1993:14) noted that in Australia different needs meant different treatment to obtain equality.

Some Australian organisations have acknowledged that a situation of [equal employment opportunities] requires recognizing that different groups of employees have different needs in the workplace. ... Initiatives designed to accommodate workers with family responsibilities have been acknowledged by some employers as a way of improving organizational performance and developing commitment among employees. ... For instance in the Proudfoot case in 1992, it was established that different services were required to give men and women equal access to appropriate health services.

In most overseas countries child care enjoys certain financial recognition from government and in some instances the government provides cash assistance to compensate those mothers who did not return to work. In other countries assistance takes the form of subsidies or tax allowances for work-place nurseries. Help with child care has become increasingly important overseas and, as the number of working

mothers increases, this should be important in South Africa as well. From a social point of view, it is essential that children should be well cared for prior to going to school and in after-school care centres. To accomplish this, money is needed and private enterprise should be encouraged to subsidise such needs.

The provision for child care can take many forms. In Australia, almost 90 000 centres for community child care have been established. Fee relief for these centres was introduced, and eligibility for such fee relief was extended. Incentives were provided to industry to invest in child care for employees' children (Kramer 1993:15).

During 1994, legislation was also introduced in Australia to pay a cash grant to the mother who stayed at home to raise her children. This provision was made via the social security budget. Previously, child-care costs made it possible for the husband to claim a dependent-spouse rebate, which was only available to one-earner couples (Child care costs 1994 par [813], [814]).

To qualify for the Home Child Care Allowance (HCCA) a person had to be married or "living in a marriage-like relationship"; have a child under 16 or in secondary school; both parent and child should live in Australia and earn less than A\$250,85 per month. The HCCA could be claimed at a maximum rate of A\$60 per fortnight, that is, A\$120 per month. This allowance does not depend on the income of the spouse of the person claiming it. The allowance is phased out as the income of the spouse receiving it increases. It is not linked to the number of children and it is paid into a bank, building society or other such account (New home child care allowance 1994:[814]).

A similar allowance in South Africa would solve many problems and would ensure that certain children at least are well cared

for by their own mothers. Considering the rate of unemployment and the number of parents, however, this would be a very expensive exercise. Although this is a social security payment and not a tax matter, provision for children should be considered a priority.

In the United States of America the Bush Administration offered \$732 million in block grants to the states for child care and also proposed increasing the modest tax credits (the maximum was then \$1 440) for lower-income parents making use of most kinds of day care. Simply increasing the personal exemption, or even "tapping into their social security" for up to three years per child, was also considered (Labich 1991:37). The big companies in the United States also pledged millions to subsidize or to provide for day-care facilities for their employees' children (Labich 1991:37).

In the United States of America employers also offer dependent/child-care 'flexible spending accounts' which provide reimbursement of dependent/child-care expenses incurred during the coverage period. The employer withholds the contribution every month and the employee is not taxed on that portion of his or her earnings. This provision is available for children under thirteen years of age or for anyone who qualifies as a dependent on the employee's Federal Income Tax return (Baxendale *et al* 1993:278,279). Another allowance for Federal Income Tax, the "child-care credit", allows a deduction of expenses incurred for a qualifying child or dependent to the extent of 30 per cent of the dependant's care expenses incurred by taxpayers earning a certain income. It is phased out from \$10 000 gross income and the maximum is \$2 400 for one qualifying individual (Baxendale 1993:279).

The United States of America has a very sophisticated tax system it may not be so easy to implement the allowances they grant for child care in South Africa. But the principles of

the different concessions, namely tax-exempt income if used for dependants or tax credits for child care, could be considered here.

In the United Kingdom, legislation was introduced in 1990 to abolish taxation on workplace nurseries. These creches were previously taxed as perks. Trade and industry is now slowly following by providing work-place nurseries for their employees' children (White 1990:9,10).

In the UK a company which set up [a work place nursery] was intended to meet two aims: assisting women returners as part of an equal opportunities package and solving some recruitment problems ... Prior to the provision of the nursery, the decision to opt for maternity leave did not always lead to a return to work. Although it was seen initially as an aid to recruitment, the nursery now meets a further need, with the majority of women opting for maternity leave returning to work and making use of the facility.

(Daniels 1991:8)

Strategy for the future for South Africa ranges from giving an out-and-out grant to non-working mothers to providing a tax-deductible allowance in addition to the deduction that would be allowed by sections 11 (a), (b) of the Act as incentive to industry for providing workplace nurseries.

A combination of government aid on different levels would be the most effective. Some aid to provide the basic needs should be given via a social security system to those parents who do not work and who have no or very low incomes. Employers should also be encouraged to provide day care and after-school care facilities for the children of their employees by granting a tax-deductible allowance per child for centres that meet certain basic health and educational

requirements. This benefit should not be taxed as a fringe benefit in the hands of the parents or only those parents who earn above a certain taxable income should be taxed on this benefit. Employers could also provide, as part of a salary package, aid towards payment of day-care costs and such aid should not be taxed as a fringe benefit. For parents who do not fall into the first category and who do not have a work-place care centre, a tax allowance should be considered to aid with the costs of child care.

A detailed investigation of these possibilities constitutes a further research project.

7.6 FINAL CONCLUSIONS AND SUGGESTIONS FOR FURTHER STUDY

The purpose of this study was to determine whether horizontal equity existed in the taxation of individuals. Horizontal equity should take certain of the taxpayer's personal circumstances, for example dependants, into account and need not necessarily compare the tax loads of the different tax units, but rather the tax loads of the different households (one-breadwinner versus two-breadwinner households).

The Margo Commission reviewed the tax situation of individual taxpayers in 1984 and 1985 (their findings were published in 1987) and found various problems with the system of joint taxation of married couples. It recommended separate taxation of husband and wife but with allowances transferable between spouses.

The years that followed the Margo Commission recommendations saw changes to the tax system specifically aimed at reducing inequities related to the taxation of married women.

This study evaluated these changes on a comparative basis and concluded that, although the married woman and two-breadwinner couples were not treated horizontally equitably by the tax system initially, the eventual separate taxation of married couples, and especially the latest recommendations of the Katz Commission and 1995 amendments to the Income Tax Act, definitely eliminated any inequalities towards these taxpayer groups and reduced any inequities.

This study indicated that the inequities emerging are against the one-breadwinner couple. To attain greater horizontal equity, provision should be made for families and households with one breadwinner only. This must be accomplished by, strictly defining "breadwinner" (to exclude any persons not responsible for dependants) and then by identifying such households.

Should the tax units have remained as they were with the married person still having the most favourable set of rates, the primary allowances should be made transferable between the spouses where one spouse is unable to fully utilize the allowance, or by taxing the working married woman and her spouse at unmarried person rates but taxing the one-breadwinner family at the rates for a married person.

The new constitution requires equality in South Africa. The Katz Commission recommended only one set of rates for all taxpayers. The amendments to the Income Tax Act proposed this equality in 1995. This means that an additional allowance will have to be made for taxpayers qualifying as breadwinners. This could be done by way of a fixed annual tax-deductible allowance, or a rebate based on cost of living expenses of the household, or by way of a proportional allowance.

This last recommendation would provide the most horizontal equity on all levels of income. It would, however, be the most expensive to the State.

As the government is currently moving towards equality, and this is most vociferously defended, these suggestions would have to be clearly seen as providing equity to the less well-off or it might not be politically attractive.

A further tax reform to provide horizontal equity to two-breadwinner couples and to the many single-parent families, would be some or other tax allowance for child care. This, and the topics discussed below, could form the basis of further research.

Horizontal equity is a very broad concept and the present research only considered certain aspects of this. Mathematical solutions and equations for measuring horizontal equity in the South African context could also be developed.

The cost of living expenses of households could be quantified in more detail and could be used with a study of the number of single parents in South Africa to develop taxation allowances to aid single parents.

The possibilities of aid for child care through the tax system, which has been a fruitful field of study overseas, has not been addressed in South Africa and is worthy of investigation. The State should provide child care in various ways by granting subsidies or providing a tax deduction to employers who provide child care or exempt from tax, as a fringe benefit, the value of the child-care assistance.

The expansion of the definition of breadwinner could also be studied in greater detail than for the purposes of the recommendations made in this study.

Equity is one of the most basic canons of taxation and the most basic constitutional requirement. Striving for horizontal equity is very important in tax reform and, in conjunction with vertical equity, should always be an aim of legislators as this provides fairness in taxation.

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APPENDICES

APPENDIX A: Calculation of taxes payable by individuals from 1985 to 1994.

APPENDIX B: Summaries of differences in taxes payable by unmarried individuals and married couples from 1985 to 1994.

APPENDIX C: Consumer price index and inflation rate for the period 1985 to 1994.

APPENDIX D: Taxation on inflation adjusted taxable incomes of 1985.

APPENDIX E: Analysis of the number of taxpayers and tax assessed in income groups.

APPENDIX F: Differences in taxes payable by the unmarried person and and the married couple - tax calculation based on the Katz Commission proposals.

APPENDIX G: Taxation calculations for the recommendations.

APPENDIX H: Differences in tax payable by the unmarried person and married couple for the recommendations.

APPENDIX I: Comparison of taxes payable 1993/1994/1995 and the recommendations.

		DIVERSE INCOME COMBINATIONS								
INCOME	1985	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100

[illegible]

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
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[illegible]

TAXESPAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	SINGLE	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1987	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX
1,000	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0
5,000	116.85	0	0	0	0	0	0	0	0	0
6,000	268.85	1.9	0	0	0	0	0	0	0	0
7,000	420.85	153.9	0	0	0	0	0	0	0	0
8,000	572.85	305.9	62.7	32.3	32.3	32.3	32.3	32.3	32.3	32.3
9,000	724.85	457.9	184.3	184.3	184.3	184.3	184.3	184.3	184.3	184.3
10,000	876.85	609.9	336.3	336.3	336.3	336.3	336.3	336.3	336.3	305.9
11,000	1044.05	761.9	488.3	488.3	488.3	488.3	488.3	488.3	488.3	427.5
12,000	1230.25	913.9	640.3	640.3	640.3	640.3	640.3	640.3	622.06	549.1
13,000	1435.45	1079.2	792.3	792.3	792.3	792.3	792.3	789.26	749.74	670.7
14,000	1659.65	1263.5	944.3	944.3	944.3	944.3	944.3	919.98	877.42	792.3
15,000	1902.85	1466.8	1113.4	1113.4	1113.4	1113.4	1113.4	1062.1	1010.8	913.9
16,000	2165.05	1689.1	1301.5	1301.5	1301.5	1301.5	1278.7	1217.9	1157.1	1045
17,000	2446.25	1930.4	1508.6	1508.6	1508.6	1508.6	1458.44	1387.38	1316.7	1187.5
18,000	2731.25	2177.4	1734.7	1734.7	1734.7	1734.7	1652.62	1570.54	1491.88	1341.4
19,000	3031.45	2437.7	1979.8	1979.8	1979.8	1955.1	1861.24	1767.38	1679.98	1508.6
20,000	3335.45	2703.7	2226.8	2226.8	2226.8	2177.4	2078.6	1979.8	1881	1689.1
22,000	3977.65	3268	2756.9	2756.9	2756.9	2650.5	2533.46	2416.42	2299.38	2078.6
24,000	4657.85	3870.3	3325	3325	3290.8	3154	3017.2	2880.4	2746.26	2490.9
26,000	5376.05	4510.6	3931.1	3931.1	3845.98	3687.9	3529.82	3371.74	3222.4	2926
28,000	6132.25	5188.9	4575.2	4575.2	4433.08	4252.2	4071.32	3894.62	3724.38	3383.9
30,000	6926.45	5905.2	5257.3	5257.3	5052.1	4846.9	4641.7	4446	4252.2	3870.3
32,000	7758.65	6659.5	6319.4	5934.08	5703.04	5472	5243.62	5024.74	4805.86	4381.4
34,000	8611.75	7451.8	6735.5	6644.3	6385.9	6127.5	5876.32	5630.84	5385.36	4915.3
36,000	9483.85	8265.95	7531.6	7387.96	7100.68	6813.4	6537.9	6264.3	5991.84	5472
38,000	10374.95	9099.1	8347.65	8151.57	7841.11	7531.6	7228.36	6925.12	6629.1	6051.5
40,000	11285.05	9951.25	9182.7	8931.9	8597.5	8265.95	7939.15	7612.35	7292.2	6659.5
50,000	16012.25	14318.4	13444.4	13007.4	12570.4	12133.4	11696.4	11259.4	10822.4	9951.25
60,000	20762.25	18872.7	17778.3	17231.1	16683.9	16136.7	15589.5	15042.3	14495.1	13444.4
70,000	25512.25	23617	22287	21622	20957	20292	19627	18963.9	18325.5	17048.7
80,000	30262.25	28367	26847	26087	25327	24567	23807	23047	22287	20767
90,000	35012.25	33117	31407	30552	29697	28842	27987	27132	26277	24567
100,000	39762.25	37867	35967	35017	34067	33117	32167	31217	30267	28367
110,000	44512.25	42617	40527	39482	38437	37392	36347	35302	34257	32167
120,000	49262.25	47367	45087	43947	42807	41667	40527	39387	38247	35967
130,000	54012.25	52117	49647	48412	47177	45942	44707	43472	42237	39767
140,000	58762.25	56867	54207	52877	51547	50217	48887	47557	46227	43567
150,000	63512.25	61617	58767	57342	55917	54492	53067	51642	50217	47367
160,000	68262.25	66367	63327	61807	60287	58767	57247	55727	54207	51167
170,000	73012.25	71117	67887	66272	64657	63042	61427	59812	58197	54967
180,000	77762.25	75867	72447	70737	69027	67317	65607	63897	62187	58767
190,000	82512.25	80617	77007	75202	73397	71592	69787	67982	66177	62567
200,000	87262.25	85367	81567	79667	77767	75867	73967	72067	70167	66367

TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	1988	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
INDIV	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX
1,000	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0
5,000	45	0	0	0	0	0	0	0	0	0
6,000	195	0	0	0	0	0	0	0	0	0
7,000	345	55	0	0	0	0	0	0	0	0
8,000	495	205	0	0	0	0	0	0	0	0
9,000	645	355	85	17.5	17.5	17.5	17.5	17.5	17.5	17.5
10,000	795	505	205	167.5	167.5	167.5	167.5	167.5	167.5	167.5
11,000	953	655	325	317.5	317.5	317.5	317.5	317.5	317.5	283.75
12,000	1129	805	467.5	467.5	467.5	467.5	467.5	467.5	467.5	400
13,000	1325	962	617.5	617.5	617.5	617.5	617.5	617.5	604	516.25
14,000	1541	1136	767.5	767.5	767.5	767.5	767.5	767.5	727	632.5
15,000	1777	1330	922	922	922	922	922	904	850	748.75
16,000	2033	1544	1091	1091	1091	1091	1091	1042.4	981.2	866
17,000	2309	1778	1280	1280	1280	1280	1271	1194.5	1118	990
18,000	2589	2018	1489	1489	1489	1489	1449.4	1363	1282	1127
19,000	2885	2272	1718	1718	1718	1718	1642.4	1545.65	1451.6	1275
20,000	3185	2532	1958	1958	1958	1958	1850	1742	1634	1434
22,000	3821	3086	2467	2467	2467	2408.5	2279.8	2151.1	2027.6	1790
24,000	4497	3680	3016	3016	3016	2890	2738.8	2589.2	2448.8	2168
26,000	5213	4314	3605	3605	3578	3402.5	3227	3059.4	2895.6	2571
28,000	5969	4988	4234	4234	4147.6	3946	3746	3557	3368	3002
30,000	6765	5702	4903	4903	4750	4520.5	4298	4082	3866	3455
32,000	7601	6456	5612	5612	5385.2	5126	4879.2	4634.4	4390.8	3930
34,000	8441	7216	6361	6343.9	6053.2	5765	5489.6	5214.2	4947.2	4427
36,000	9299	7990	7121	7052.6	6744.8	6437	6129.2	5821.4	5529.2	4954
38,000	10159	8790	7890	7764	7436.4	7111.5	6786.6	6461.7	6136.8	5504
40,000	11037	9590	8690	8510	8150	7790	7444	7102	6760	6076
50,000	15515	13831	12863.5	12379.75	11896	11421.5	10949	10476.5	10004	9090
60,000	20015	18228	17040	16446	15852	15258	14664	14070	13487	12326
70,000	24515	22725	21307.5	20598.75	19890	19181.25	18472.5	17777	17084	15698
80,000	29015	27225	25605	24795	23985	23175	22365	21555	20745	19125
90,000	33515	31725	29902.5	28991.25	28080	27168.75	26257.5	25346.25	24435	22612.5
100,000	38015	36225	34200	33187.5	32175	31162.5	30150	29137.5	28125	26100
110,000	42515	40725	38497.5	37383.75	36270	35156.25	34042.5	32928.75	31815	29587.5
120,000	47015	45225	42795	41580	40365	39150	37935	36720	35505	33075
130,000	51515	49725	47092.5	45776.25	44460	43143.75	41827.5	40511.25	39195	36562.5
140,000	56015	54225	51390	49972.5	48555	47137.5	45720	44302.5	42885	40050
150,000	60515	58725	55687.5	54168.75	52650	51131.25	49612.5	48093.75	46575	43537.5
160,000	65015	63225	59985	58365	56745	55125	53505	51885	50265	47025
170,000	69515	67725	64282.5	62561.25	60840	59118.75	57397.5	55676.25	53955	50512.5
180,000	74015	72225	68580	66757.5	64935	63112.5	61290	59467.5	57645	54000
190,000	78515	76725	72877.5	70953.75	69030	67106.25	65182.5	63258.75	61335	57487.5
200,000	83015	81225	77175	75150	73125	71100	69075	67050	65025	60975

TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	1989	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1989	INDIV.	FINAL TX	FINAL TX	FINAL TAX	FINAL TX	FINAL TX	FINAL TX	FINAL TAX	FINAL TX	FINAL TX

1,000	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0
6,000	90	0	0	0	0	0	0	0	0	0
7,000	230	0	0	0	0	0	0	0	0	0
8,000	370	20	0	0	0	0	0	0	0	0
9,000	510	160	0	0	0	0	0	0	0	0
10,000	650	300	20	0	0	0	0	0	0	0
11,000	800	440	132	125	125	125	125	125	125	93.5
12,000	970	580	265	265	265	265	265	265	265	202
13,000	1160	730	405	405	405	405	405	405	392.4	310.5
14,000	1370	900	545	545	545	545	545	545	507.2	419
15,000	1600	1090	692.5	692.5	692.5	692.5	692.5	675.625	625	527.5
16,000	1850	1300	857.5	857.5	857.5	857.5	872.8	811.6	750.4	640
17,000	2120	1530	1042.5	1042.5	1042.5	1042.5	1033.95	961.275	889.8	759.75
18,000	2390	1760	1247.5	1247.5	1247.5	1247.5	1209.7	1124.65	1044.4	891.5
19,000	2680	2010	1472.5	1472.5	1472.5	1472.5	1400.05	1301.725	1211.8	1037.75
20,000	2970	2260	1702.5	1702.5	1702.5	1702.5	1599	1495.5	1392	1195
22,000	3590	2800	2197.5	2197.5	2197.5	2141.25	2017.5	1893.75	1770	1541.5
24,000	4250	3380	2732.5	2732.5	2732.5	2611	2465.2	2319.4	2180	1910
26,000	4950	4000	3307.5	3307.5	3281.4	3111.75	2942.1	2774.35	2616.4	2300.5
28,000	5690	4660	3922.5	3922.5	3838.8	3643.5	3448.2	3261.1	3078.4	2719
30,000	6470	5360	4379.5	4379.5	4231	4008.25	3798.5	3606.3	3541.2	3162.5
32,000	7290	6100	4852.5	4852.5	4633.6	4396	4158.4	4010.56	3940.48	3628
34,000	8110	6840	5502.45	5326.75	5059	4791.25	4531.3	4440.22	4361.68	4115.5
36,000	8930	7600	6198.05	5792.9	5493.2	5202.5	4970.8	4882.6	4794.4	4620.4
38,000	9770	8380	6893.65	6390.265	5944.6	5628.25	5435.48	5338.3	5245.2	5059
40,000	10610	9160	7609.75	7028.7	6396	6063	5922.4	5818.8	5715.2	5508
50,000	14910	13260	11384.25	10446.37	9508.5	9324	9180.5	9043	8906.5	8633.5
60,000	19370	17460	15154.2	14001.3	13457.4	13281	13108.3	12936.1	12763.9	11825
70,000	23870	21760	19005.85	17752.4	17541.7	17334	17128.2	16922.4	16368	15045
80,000	28370	26160	22939.2	21966.8	21721.3	21480.5	21239.7	20642	19868	18320
90,000	32870	30660	26954.25	26277	25997.2	25720	25214	24323	23432	21652.5
100,000	37370	35160	31042.5	30682.5	30367.5	30052.5	29085	28072.5	27060	25060
110,000	41870	39660	35434.5	35088	34741.5	34091.25	32977.5	31863.75	30750	28522.5
120,000	46370	44160	39871.5	39493.5	39115.5	38085	36870	35655	34440	32010
130,000	50870	48660	44308.5	43899	43395	42078.75	40762.5	39446.25	38130	35497.5
140,000	55370	53160	48745.5	48304.5	47490	46072.5	44655	43237.5	41820	38985
150,000	59870	57660	53182.5	52710	51585	50066.25	48547.5	47028.75	45510	42472.5
160,000	64370	62160	57619.5	57115.5	55680	54060	52440	50820	49200	45960
170,000	68870	66660	62056.5	61496.25	59775	58053.75	56332.5	54611.25	52890	49447.5
180,000	73370	71160	66493.5	65692.5	63870	62047.5	60225	58402.5	56580	52935
190,000	77870	75660	70930.5	69888.75	67965	66041.25	64117.5	62193.75	60270	56422.5
200,000	82370	80160	75367.5	74085	72060	70035	68010	65985	63960	59910

TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	SINGLE	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1990	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TX	FINAL TAX	FINAL TX	FINAL TX
1,000	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	175
6,000	0	0	0	0	0	0	0	0	125	425
7,000	130	0	0	0	0	0	0	150	325	675
8,000	270	0	0	0	0	0	125	325	525	925
9,000	410	10	0	0	0	50	275	500	725	1175
10,000	550	150	0	0	0	175	425	675	925	1425
11,000	700	290	0	0	25	300	575	850	1125	1675
12,000	870	430	94	0	125	425	725	1025	1325	1925
13,000	1060	580	206	24	225	550	875	1200	1525	2175
14,000	1270	750	318	122	325	675	1025	1375	1725	2425
15,000	1500	940	430	270	435	800	1175	1550	1925	2675
16,000	1750	1150	550	443	619	925	1325	1725	2125	2925
17,000	2020	1380	682	616	803	1050	1475	1900	2325	3175
18,000	2290	1610	826	795	987	1185	1625	2075	2525	3425
19,000	2580	1860	982	981	1171	1380	1775	2250	2725	3675
20,000	2870	2110	1150	1175	1355	1575	1925	2425	2925	3925
22,000	3490	2650	1543	1599	1739	1965	2225	2775	3325	4485
24,000	4150	3230	2035	2059	2151	2355	2619	3125	3725	5045
26,000	4850	3850	2551	2535	2591	2755	3031	3475	4149	5645
28,000	5590	4510	3091	3035	3059	3175	3443	3825	4597	6245
30,000	6370	5210	3655	3555	3535	3615	3855	4215	5045	6885
32,000	7190	5950	4251	4091	4035	4075	4275	4691	5525	7525
34,000	8010	6690	4871	4647	4543	4555	4719	5167	6005	8205
36,000	8830	7450	5515	5227	5067	5035	5199	5667	6501	8885
38,000	9670	8230	6183	5823	5607	5535	5691	6171	7013	9605
40,000	10510	9010	6875	6435	6155	6035	6195	6675	7525	10325
50,000	14810	13110	10435	9735	9135	8885	8995	9485	10475	14125
60,000	19270	17310	14215	13255	12495	12095	12115	12695	13795	17925
70,000	23770	21610	18055	16905	16075	15605	15595	16125	17155	21725
80,000	28270	26010	21955	20675	19815	19335	19315	19635	20595	25525
90,000	32770	30510	25915	24545	23675	23285	23095	23245	24095	29325
100,000	37270	35010	29935	28495	27635	27235	26935	26935	27635	33125
110,000	41770	39510	34095	32555	31735	31235	30855	30705	31215	36925
120,000	46270	44010	38255	36695	35855	35235	34775	34495	34835	40725
130,000	50770	48510	42455	40925	40015	39285	38715	38325	38495	44525
140,000	55270	53010	46655	45195	44215	43335	42675	42195	42195	48325
150,000	59770	57510	50895	49485	48435	47435	46635	46085	45935	52125
160,000	64270	62010	55135	53775	52655	51535	50635	49975	49715	55925
170,000	68770	66510	59415	58065	56875	55685	54495	53875	53495	59725
180,000	73270	71010	63695	62355	61095	59835	58655	57795	57295	63525
190,000	77770	75510	68015	66645	65315	63985	62695	61715	61115	67325
200,000	82270	80010	72335	70935	69535	68135	66735	65635	64935	71125

TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	1991	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1991	INDIV.	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX
1,000	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	80
6,000	0	0	0	0	0	0	0	0	44	260
7,000	0	0	0	0	0	0	0	62	188	440
8,000	0	0	0	0	0	0	44	188	332	620
9,000	0	0	0	0	0	0	152	314	476	830
10,000	0	0	0	0	0	80	260	440	620	1040
11,000	150	0	0	0	0	170	368	566	788	1250
12,000	360	0	0	0	44	260	476	704	956	1460
13,000	600	200	0	0	116	350	584	851	1124	1700
14,000	840	400	0	0	188	440	704	998	1292	1940
15,000	1080	600	0	0	260	530	830	1145	1460	2180
16,000	1320	820	160	44	332	620	956	1292	1652	2420
17,000	1590	1040	320	98	404	725	1082	1439	1844	2690
18,000	1860	1260	480	272	476	830	1208	1604	2036	2960
19,000	2130	1480	644	466	548	935	1334	1772	2228	3230
20,000	2400	1700	820	660	620	1040	1460	1940	2420	3500
22,000	3000	2180	1172	1056	1028	1250	1748	2276	2852	4100
24,000	3600	2660	1568	1472	1436	1460	2036	2636	3284	4700
26,000	4260	3170	2008	1888	1856	1900	2324	3014	3740	5340
28,000	4920	3710	2464	2316	2288	2340	2636	3392	4220	5980
30,000	5640	4250	2920	2770	2720	2780	2960	3800	4700	6660
32,000	6360	4850	3394	3232	3176	3240	3444	4220	5212	7340
34,000	7140	5450	3898	3694	3640	3730	3940	4640	5724	8060
36,000	7920	6080	4402	4162	4120	4220	4460	5084	6252	8780
38,000	8720	6740	4918	4666	4600	4710	4984	5532	6796	9520
40,000	9520	7400	5470	5170	5080	5200	5520	5980	7340	10260
50,000	13700	11150	8440	7930	7750	7920	8360	9020	10260	14060
60,000	18040	15200	11830	11080	10780	10910	11440	12280	13300	17860
70,000	22440	19400	15500	14560	14100	14170	14730	15620	16740	21660
80,000	26840	23700	19300	18260	17710	17660	18150	19000	20200	25460
90,000	31240	28100	23220	22120	21530	21360	21660	22440	23680	29260
100,000	35640	32500	27200	26060	25460	25210	25260	25910	27160	33060
110,000	40040	36900	31320	30110	29500	29110	28980	29470	30680	36860
120,000	44440	41300	35440	34240	33560	33060	32790	33060	34200	40660
130,000	48840	45700	39600	38430	37660	37060	36650	36710	37750	44460
140,000	53240	50100	43760	42640	41800	41060	40540	40420	41330	48260
150,000	57640	54500	47960	46860	45960	45110	44460	44160	44910	52060
160,000	62040	58900	52160	51080	50120	49160	48420	47990	48550	55860
170,000	66440	63300	56400	55300	54280	53260	52380	51830	52190	59660
180,000	70840	67700	60640	59520	58440	57360	56360	55690	55860	63460
190,000	75240	72100	64900	63740	62600	61460	60360	59570	59560	67260
200,000	79640	76500	69160	67960	66760	65560	64360	63460	63260	71060

TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	1991/1992	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
UNMARRIEDCOMBINEDCOMBINEDCOMBINEDCOMBINEDCOMBINEDCOMBINEDCOMBINEDCOMBINEDCOMBINEDCOMBINED										

1,000	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0	160
7,000	0	0	0	0	0	0	0	0	88	340
8,000	0	0	0	0	0	0	0	88	232	520
9,000	0	0	0	0	0	0	52	214	376	730
10,000	0	0	0	0	0	0	160	340	520	940
11,000	135	0	0	0	0	70	268	466	688	1150
12,000	345	0	0	0	0	160	376	604	856	1360
13,000	555	170	0	0	16	250	484	751	1024	1600
14,000	765	360	0	0	88	340	604	898	1192	1840
15,000	975	550	0	0	160	430	730	1045	1360	2080
16,000	1225	760	132	0	232	520	856	1192	1552	2320
17,000	1475	970	284	0	304	625	982	1339	1744	2590
18,000	1725	1180	436	146	376	730	1108	1504	1936	2860
19,000	1975	1390	592	333	448	835	1234	1672	2128	3130
20,000	2225	1600	760	520	520	940	1360	1840	2320	3400
22,000	2805	2060	1096	902	896	1150	1648	2176	2752	4000
24,000	3385	2520	1432	1304	1292	1360	1936	2536	3184	4600
26,000	4005	3010	1800	1706	1700	1770	2224	2914	3640	5240
28,000	4665	3530	2240	2120	2120	2200	2536	3292	4120	5880
30,000	5325	4050	2680	2560	2540	2630	2860	3700	4600	6560
32,000	6045	4630	3138	3008	2984	3080	3316	4120	5112	7240
34,000	6765	5210	3626	3456	3436	3560	3804	4540	5624	7960
36,000	7515	5820	4114	3910	3904	4040	4316	4984	6152	8680
38,000	8295	6460	4614	4400	4372	4520	4828	5432	6696	9420
40,000	9075	7100	5150	4890	4840	5000	5340	5880	7240	10160
50,000	13125	10750	8040	7580	7450	7670	8160	8870	10160	13960
60,000	17365	14700	11350	10660	10420	10610	11200	12100	13200	17760
70,000	21665	18800	14940	14070	13680	13820	14450	15410	16600	21560
80,000	25965	23000	18660	17700	17230	17260	17830	18760	20040	25360
90,000	30265	27300	22500	21490	20990	20910	21300	22170	23500	29160
100,000	34565	31600	26400	25360	24860	24710	24860	25610	26960	32960
110,000	38865	35900	30440	29340	28840	28560	28540	29140	30460	36760
120,000	43165	40200	34480	33400	32840	32460	32310	32700	33960	40560
130,000	47465	44500	38560	37520	36880	36410	36130	36320	37490	44360
140,000	51765	48800	42640	41660	40960	40360	39980	40000	41050	48160
150,000	56065	53100	46760	45810	45060	44360	43860	43710	44610	51960
160,000	60365	57400	50880	49960	49160	48360	47780	47510	48230	55760
170,000	64665	61700	55040	54110	53260	52410	51700	51320	51850	59560
180,000	68965	66000	59200	58260	57360	56460	55640	55150	55500	63360
190,000	73265	70300	63380	62410	61460	60510	59600	59000	59180	67160
200,000	77565	74600	67560	66560	65560	64560	63560	62860	62860	70960

TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	1992/1993	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1993	UNMARRIED	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX
1,000	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0	140
7,000	0	0	0	0	0	0	0	0	64	330
8,000	0	0	0	0	0	0	0	64	216	520
9,000	0	0	0	0	0	0	26	197	368	710
10,000	0	0	0	0	0	0	140	330	520	900
11,000	60	0	0	0	0	45	254	463	672	1110
12,000	270	0	0	0	0	140	368	596	824	1320
13,000	480	65	0	0	0	235	482	729	984	1530
14,000	690	245	0	0	64	330	596	862	1152	1740
15,000	900	475	0	0	140	425	710	1005	1320	1950
16,000	1140	675	57	0	216	520	824	1152	1488	2190
17,000	1380	875	209	0	292	615	942	1299	1656	2430
18,000	1620	1075	361	45	368	710	1068	1446	1824	2670
19,000	1860	1275	515	235	444	805	1194	1593	1998	2910
20,000	2100	1475	675	425	520	900	1320	1740	2190	3150
22,000	2660	1895	995	809	805	1110	1572	2046	2574	3710
24,000	3220	2315	1315	1203	1185	1320	1824	2382	2958	4270
26,000	3780	2735	1643	1597	1579	1625	2094	2718	3374	4830
28,000	4340	3155	2043	1991	1987	2025	2382	3054	3822	5390
30,000	4900	3575	2455	2395	2395	2425	2670	3430	4270	5950
32,000	5620	4135	2867	2803	2803	2865	3015	3822	4718	6670
34,000	6340	4695	3279	3215	3215	3305	3471	4214	5166	7390
36,000	7060	5255	3691	3635	3635	3745	3959	4606	5614	8110
38,000	7780	5815	4131	4055	4061	4185	4449	4998	6094	8830
40,000	8500	6375	4655	4475	4505	4625	4945	5390	6670	9550
50,000	12600	9975	7275	6925	6725	7075	7425	8225	9550	13350
60,000	16840	14075	10575	9765	9525	9525	10425	11385	12590	17350
70,000	21140	18275	14175	13045	12485	12725	13465	14655	16035	21350
80,000	25440	22475	17945	16705	15925	15925	16725	18065	19625	25350
90,000	29740	26775	21785	20445	19725	19625	20205	21495	23225	29350
100,000	34040	31075	25625	24225	23625	23325	23725	24925	26825	33350
110,000	38340	35375	29625	28245	27665	27375	27565	28565	30445	37350
120,000	42640	39675	33625	32305	31705	31425	31405	32205	34065	41350
130,000	46940	43975	37625	36395	35785	35525	35345	35845	37685	45350
140,000	51240	48275	41625	40525	39945	39625	39385	39645	41305	49350
150,000	55540	52575	45625	44675	44125	43725	43425	43525	44925	53350
160,000	59840	56875	49785	48825	48305	47825	47505	47405	48685	57350
170,000	64140	61175	53945	52995	52485	51975	51585	51335	52445	61350
180,000	68440	65475	58105	57205	56665	56125	55665	55365	56205	65350
190,000	72740	69775	62265	61415	60845	60275	59745	59395	59965	69350
200,000	77040	74075	66425	65625	65025	64425	63825	63425	63725	73350

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1000	0	0	0	0	0	0	0	0	0
2000	0	0	0	0	0	0	0	0	0
3000	0	0	0	0	0	0	0	0	0
4000	-61.2	-61.2	-61.2	-61.2	-61.2	-61.2	-61.2	-61.2	-61.2
5000	-131.2	-205.2	-205.2	-205.2	-205.2	-205.2	-205.2	-205.2	-205.2
6000	-155.2	-299.2	-347.2	-347.2	-347.2	-347.2	-347.2	-347.2	-347.2
7000	-179.2	-347.2	-371.2	-371.2	-371.2	-371.2	-371.2	-371.2	-371.2
8000	-203.2	-395.2	-395.2	-395.2	-395.2	-395.2	-395.2	-395.2	-395.2
9000	-232.4	-438.4	-438.4	-438.4	-438.4	-438.4	-438.4	-438.4	-438.4
10000	-265.6	-503.6	-503.6	-503.6	-503.6	-503.6	-503.6	-503.6	-503.6
11000	-290.8	-500.8	-500.8	-500.8	-500.8	-500.8	-500.8	-500.8	-500.8
12000	-344	-706	-706	-706	-706	-706	-706	-706	-706
13000	-389.2	-723.2	-723.2	-723.2	-723.2	-723.2	-723.2	-723.2	-723.2
14000	-438.4	-804.4	-804.4	-804.4	-804.4	-804.4	-804.4	-804.4	-804.4
15000	-491.6	-889.6	-889.6	-889.6	-889.6	-889.6	-889.6	-889.6	-889.6
16000	-548.8	-978.8	-978.8	-978.8	-978.8	-978.8	-978.8	-978.8	-978.8
17000	-610	-1072	-1072	-1072	-1072	-1072	-1072	-1072	-1072
18000	-670	-1150	-1150	-1150	-1150	-1150	-1150	-1150	-1150
19000	-735.2	-1229.2	-1229.2	-1229.2	-1229.2	-1229.2	-1229.2	-1229.2	-1229.2
20000	-799.2	-1667.2	-1311.2	-1311.2	-1311.2	-1311.2	-1311.2	-1311.2	-1311.2
22000	-936.4	-1480.4	-1480.4	-1480.4	-1480.4	-1480.4	-1480.4	-1480.4	-1480.4
24000	-1081.6	-1657.6	-1657.6	-1657.6	-1657.6	-1657.6	-1657.6	-1657.6	-1657.6
26000	-1234.8	-1842.8	-1842.8	-1842.8	-1842.8	-1842.8	-1842.8	-1842.8	-1842.8
28000	-1396	-2036	-2036	-2036	-2036	-2036	-2036	-2036	-2036
30000	-1558	-2230	-2230	-2230	-2230	-2230	-2230	-2230	-2230
32000	-1684	-2388	-2388	-2388	-2388	-2388	-2388	-2388	-2388
34000	-1770	-2506	-2506	-2506	-2506	-2506	-2506	-2506	-2506
36000	-1833	-2585	-2585	-2585	-2585	-2585	-2585	-2585	-2585
38000	-1876	-2644	-2644	-2644	-2644	-2644	-2644	-2644	-2644
40000	-1899	-2683	-2683	-2683	-2683	-2683	-2683	-2683	-2683
50000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
60000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
70000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
80000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
90000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
100000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
110000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
120000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
130000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
140000	-1902	-2702	-2702	-2702	-2702	-2702	-2702	-2702	-2702
150000	-1902	-2702	-2702	-2702</					

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)										
INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100	
1987	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	
1,000	0	0	0	0	0	0	0	0	0	
2,000	0	0	0	0	0	0	0	0	0	
3,000	0	0	0	0	0	0	0	0	0	
4,000	0	0	0	0	0	0	0	0	0	
5,000	-116.85	-116.85	-116.85	-116.85	-116.85	-116.85	-116.85	-116.85	-116.85	
6,000	-266.95	-268.85	-268.85	-268.85	-268.85	-268.85	-268.85	-268.85	-268.85	
7,000	-266.95	-420.85	-420.85	-420.85	-420.85	-420.85	-420.85	-420.85	-420.85	
8,000	-266.95	-510.15	-540.55	-540.55	-540.55	-540.55	-540.55	-540.55	-540.55	
9,000	-266.95	-540.55	-540.55	-540.55	-540.55	-540.55	-540.55	-540.55	-540.55	
10,000	-266.95	-540.55	-540.55	-540.55	-540.55	-540.55	-540.55	-540.55	-570.95	
11,000	-282.15	-555.75	-555.75	-555.75	-555.75	-555.75	-555.75	-555.75	-616.55	
12,000	-316.35	-589.95	-589.95	-589.95	-589.95	-589.95	-589.95	-608.19	-681.15	
13,000	-356.25	-643.15	-643.15	-643.15	-643.15	-643.15	-646.19	-685.71	-764.75	
14,000	-396.15	-715.35	-715.35	-715.35	-715.35	-715.35	-739.67	-782.23	-867.35	
15,000	-436.05	-789.45	-789.45	-789.45	-789.45	-789.45	-840.75	-892.05	-988.95	
16,000	-475.95	-863.55	-863.55	-863.55	-863.55	-886.35	-947.15	-1007.95	-1120.05	
17,000	-515.85	-937.65	-937.65	-937.65	-937.65	-987.81	-1058.87	-1129.55	-1258.75	
18,000	-553.85	-996.55	-996.55	-996.55	-996.55	-1078.63	-1160.71	-1239.37	-1389.85	
19,000	-593.75	-1051.65	-1051.65	-1051.65	-1076.35	-1170.21	-1264.07	-1351.47	-1522.85	
20,000	-631.75	-1108.65	-1108.65	-1108.65	-1158.05	-1256.85	-1355.65	-1454.45	-1646.35	
22,000	-709.65	-1220.75	-1220.75	-1220.75	-1327.15	-1444.19	-1561.23	-1678.27	-1899.05	
24,000	-787.55	-1332.85	-1332.85	-1367.05	-1503.85	-1640.65	-1777.45	-1911.59	-2166.95	
26,000	-865.45	-1444.95	-1444.95	-1530.07	-1688.15	-1846.23	-2004.31	-2153.65	-2450.05	
28,000	-943.35	-1557.05	-1557.05	-1699.17	-1880.05	-2060.93	-2237.63	-2407.87	-2748.35	
30,000	-1021.25	-1669.15	-1669.15	-1874.35	-2079.55	-2284.75	-2480.45	-2674.25	-3056.15	
32,000	-1099.15	-1439.25	-1824.57	-2055.61	-2286.65	-2515.03	-2733.91	-2952.79	-3377.25	
34,000	-1159.95	-1876.25	-1967.45	-2225.85	-2484.25	-2735.43	-2980.91	-3226.39	-3696.45	
36,000	-1217.9	-1952.25	-2095.89	-2383.17	-2670.45	-2945.95	-3219.55	-3492.01	-4011.85	
38,000	-1275.85	-2027.3	-2223.38	-2533.84	-2843.35	-3146.59	-3449.83	-3745.85	-4323.45	
40,000	-1333.8	-2102.35	-2353.15	-2687.55	-3019.1	-3345.9	-3672.7	-3992.85	-4625.55	
50,000	-1693.85	-2567.85	-3004.85	-3441.85	-3878.85	-4315.85	-4752.85	-5189.85	-6061	
60,000	-1889.55	-2983.95	-3531.15	-4078.35	-4625.55	-5172.75	-5719.95	-6267.15	-7317.85	
70,000	-1895.25	-3225.25	-3890.25	-4555.25	-5220.25	-5885.25	-6548.35	-7186.75	-8463.55	
80,000	-1895.25	-3415.25	-4175.25	-4935.25	-5695.25	-6455.25	-7215.25	-7975.25	-9495.25	
90,000	-1895.25	-3605.25	-4460.25	-5315.25	-6170.25	-7025.25	-7880.25	-8735.25	-10445.2	
100,000	-1895.25	-3795.25	-4745.25	-5695.25	-6645.25	-7595.25	-8545.25	-9495.25	-11395.2	
110,000	-1895.25	-3985.25	-5030.25	-6075.25	-7120.25	-8165.25	-9210.25	-10255.2	-12345.2	
120,000	-1895.25	-4175.25	-5315.25	-6455.25	-7595.25	-8735.25	-9875.25	-11015.2	-13295.2	
130,000	-1895.25	-4365.25	-5600.25	-6835.25	-8070.25	-9305.25	-10540.2	-11775.2	-14245.2	
140,000	-1895.25	-4555.25	-5885.25	-7215.25	-8545.25	-9875.25	-11205.2	-12535.2	-15195.2	
150,000	-1895.25	-4745.25	-6170.25	-7595.25	-9020.25	-10445.2	-11870.2	-13295.2	-16145.2	
160,000	-1895.25	-4935.25	-6455.25	-7975.25	-9495.25	-11015.2	-12535.2	-14055.2	-17095.2	
170,000	-1895.25	-5125.25	-6740.25	-8355.25	-9970.25	-11585.2	-13200.2	-14815.2	-18045.2	
180,000	-1895.25	-5315.25	-7025.25	-8735.25	-10445.2	-12155.2	-13865.2	-15575.2	-18995.2	
190,000	-1895.25	-5505.25	-7310.25	-9115.25	-10920.2	-12725.2	-14530.2	-16335.2	-19945.2	
200,000	-1895.25	-5695.25	-7595.25	-9495.25	-11395.2	-13295.2	-15195.2	-17095.2	-20895.2	

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1988	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF
1,000	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0
5,000	-45	-45	-45	-45	-45	-45	-45	-45	-45
6,000	-195	-195	-195	-195	-195	-195	-195	-195	-195
7,000	-290	-345	-345	-345	-345	-345	-345	-345	-345
8,000	-290	-495	-495	-495	-495	-495	-495	-495	-495
9,000	-290	-560	-627.5	-627.5	-627.5	-627.5	-627.5	-627.5	-627.5
10,000	-290	-590	-627.5	-627.5	-627.5	-627.5	-627.5	-627.5	-627.5
11,000	-298	-628	-635.5	-635.5	-635.5	-635.5	-635.5	-635.5	-669.25
12,000	-324	-661.5	-661.5	-661.5	-661.5	-661.5	-661.5	-661.5	-729
13,000	-363	-707.5	-707.5	-707.5	-707.5	-707.5	-707.5	-721	-808.75
14,000	-405	-773.5	-773.5	-773.5	-773.5	-773.5	-773.5	-814	-908.5
15,000	-447	-855	-855	-855	-855	-855	-873	-927	-1028.25
16,000	-489	-942	-942	-942	-942	-942	-990.6	-1051.8	-1167
17,000	-531	-1029	-1029	-1029	-1029	-1038	-1114.5	-1191	-1319
18,000	-571	-1100	-1100	-1100	-1100	-1139.6	-1226	-1307	-1462
19,000	-613	-1167	-1167	-1167	-1167	-1242.6	-1339.35	-1433.4	-1610
20,000	-653	-1227	-1227	-1227	-1227	-1335	-1443	-1551	-1751
22,000	-735	-1354	-1354	-1354	-1412.5	-1541.2	-1669.9	-1793.4	-2031
24,000	-817	-1481	-1481	-1481	-1607	-1758.2	-1907.8	-2048.2	-2329
26,000	-899	-1608	-1608	-1635	-1810.5	-1986	-2153.6	-2317.4	-2642
28,000	-981	-1735	-1735	-1821.4	-2023	-2223	-2412	-2601	-2967
30,000	-1063	-1862	-1862	-2015	-2244.5	-2467	-2683	-2899	-3310
32,000	-1145	-1989	-1989	-2215.8	-2475	-2721.8	-2966.6	-3210.2	-3671
34,000	-1225	-2080	-2097.1	-2387.8	-2676	-2951.4	-3226.8	-3493.8	-4014
36,000	-1309	-2178	-2246.4	-2554.2	-2862	-3169.8	-3477.6	-3769.8	-4345
38,000	-1369	-2269	-2395	-2722.6	-3047.5	-3372.4	-3697.3	-4022.2	-4655
40,000	-1447	-2347	-2527	-2887	-3247	-3593	-3935	-4277	-4961
50,000	-1684	-2651.5	-3135.25	-3619	-4093.5	-4566	-5038.5	-5511	-6425
60,000	-1787	-2975	-3569	-4163	-4757	-5351	-5945	-6528	-7689
70,000	-1790	-3207.5	-3916.25	-4625	-5333.75	-6042.5	-6738	-7431	-8817
80,000	-1790	-3410	-4220	-5030	-5840	-6650	-7460	-8270	-9890
90,000	-1790	-3612.5	-4523.75	-5435	-6346.25	-7257.5	-8168.75	-9080	-10902.5
100,000	-1790	-3815	-4827.5	-5840	-6852.5	-7865	-8877.5	-9890	-11915
110,000	-1790	-4017.5	-5131.25	-6245	-7358.75	-8472.5	-9586.25	-10700	-12927.5
120,000	-1790	-4220	-5435	-6650	-7865	-9080	-10295	-11510	-13940
130,000	-1790	-4422.5	-5738.75	-7055	-8371.25	-9687.5	-11003.7	-12320	-14952.5
140,000	-1790	-4625	-6042.5	-7460	-8877.5	-10295	-11712.5	-13130	-15965
150,000	-1790	-4827.5	-6346.25	-7865	-9383.75	-10902.5	-12421.2	-13940	-16977.5
160,000	-1790	-5030	-6650	-8270	-9890	-11510	-13130	-14750	-17990
170,000	-1790	-5232.5	-6953.75	-8675	-10396.2	-12117.5	-13838.7	-15560	-19002.5
180,000	-1790	-5435	-7257.5	-9080	-10902.5	-12725	-14547.5	-16370	-20015
190,000	-1790	-5637.5	-7561.25	-9485	-11408.7	-13332.5	-15256.2	-17180	-21027.5
200,000	-1790	-5840	-7865	-9890	-11915	-13940	-15965	-17990	-22040

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1989	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF	DIFF
1,000	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0
6,000	-90	-90	-90	-90	-90	-90	-90	-90	-90
7,000	-230	-230	-230	-230	-230	-230	-230	-230	-230
8,000	-350	-370	-370	-370	-370	-370	-370	-370	-370
9,000	-350	-510	-510	-510	-510	-510	-510	-510	-510
10,000	-350	-630	-650	-650	-650	-650	-650	-650	-650
11,000	-360	-668	-675	-675	-675	-675	-675	-675	-706.5
12,000	-390	-705	-705	-705	-705	-705	-705	-705	-768
13,000	-430	-755	-755	-755	-755	-755	-755	-767.6	-849.5
14,000	-470	-825	-825	-825	-825	-825	-825	-862.8	-951
15,000	-510	-907.5	-907.5	-907.5	-907.5	-907.5	-924.375	-975	-1072.5
16,000	-550	-992.5	-992.5	-992.5	-992.5	-977.2	-1038.4	-1099.6	-1210
17,000	-590	-1077.5	-1077.5	-1077.5	-1077.5	-1086.05	-1158.72	-1230.2	-1360.25
18,000	-630	-1142.5	-1142.5	-1142.5	-1142.5	-1180.3	-1265.35	-1345.6	-1498.5
19,000	-670	-1207.5	-1207.5	-1207.5	-1207.5	-1279.95	-1378.27	-1468.2	-1642.25
20,000	-710	-1267.5	-1267.5	-1267.5	-1267.5	-1371	-1474.5	-1578	-1775
22,000	-790	-1392.5	-1392.5	-1392.5	-1448.75	-1572.5	-1696.25	-1820	-2048.5
24,000	-870	-1517.5	-1517.5	-1517.5	-1639	-1784.8	-1930.6	-2070	-2340
26,000	-950	-1642.5	-1642.5	-1668.6	-1838.25	-2007.9	-2175.65	-2333.6	-2649.5
28,000	-1030	-1767.5	-1767.5	-1851.2	-2046.5	-2241.8	-2428.9	-2611.6	-2971
30,000	-1110	-2090.5	-2090.5	-2239	-2461.75	-2671.5	-2863.7	-2928.8	-3307.5
32,000	-1190	-2437.5	-2437.5	-2656.4	-2894	-3131.6	-3279.44	-3349.52	-3662
34,000	-1270	-2607.55	-2783.25	-3051	-3318.75	-3578.7	-3669.78	-3748.32	-3994.5
36,000	-1330	-2731.95	-3137.1	-3436.8	-3727.5	-3959.2	-4047.4	-4135.6	-4309.6
38,000	-1390	-2876.35	-3379.73	-3825.4	-4141.75	-4334.52	-4431.7	-4524.8	-4711
40,000	-1450	-3000.25	-3581.3	-4214	-4547	-4687.6	-4791.2	-4894.8	-5102
50,000	-1650	-3525.75	-4463.62	-5401.5	-5586	-5729.5	-5867	-6003.5	-6276.5
60,000	-1910	-4215.8	-5368.7	-5912.6	-6089	-6261.7	-6433.9	-6606.1	-7545
70,000	-2110	-4864.15	-6117.6	-6328.3	-6536	-6741.8	-6947.6	-7502	-8825
80,000	-2210	-5430.8	-6403.2	-6648.7	-6889.5	-7130.3	-7728	-8502	-10050
90,000	-2210	-5915.75	-6593	-6872.8	-7150	-7656	-8547	-9438	-11217.5
100,000	-2210	-6327.5	-6687.5	-7002.5	-7317.5	-8285	-9297.5	-10310	-12310
110,000	-2210	-6435.5	-6782	-7128.5	-7778.75	-8892.5	-10006.2	-11120	-13347.5
120,000	-2210	-6498.5	-6876.5	-7254.5	-8285	-9500	-10715	-11930	-14360
130,000	-2210	-6561.5	-6971	-7475	-8791.25	-10107.5	-11423.7	-12740	-15372.5
140,000	-2210	-6624.5	-7065.5	-7880	-9297.5	-10715	-12132.5	-13550	-16385
150,000	-2210	-6687.5	-7160	-8285	-9803.75	-11322.5	-12841.2	-14360	-17397.5
160,000	-2210	-6750.5	-7254.5	-8690	-10310	-11930	-13550	-15170	-18410
170,000	-2210	-6813.5	-7373.75	-9095	-10816.2	-12537.5	-14258.7	-15980	-19422.5
180,000	-2210	-6876.5	-7677.5	-9500	-11322.5	-13145	-14967.5	-16790	-20435
190,000	-2210	-6939.5	-7981.25	-9905	-11828.7	-13752.5	-15676.2	-17600	-21447.5
200,000	-2210	-7002.5	-8285	-10310	-12335	-14360	-16385	-18410	-22460

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1990	R	R	R	R	R	R	R	R	R
1,000	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	175
6,000	0	0	0	0	0	0	0	125	425
7,000	-130	-130	-130	-130	-130	-130	20	195	545
8,000	-270	-270	-270	-270	-270	-145	55	255	655
9,000	-400	-410	-410	-410	-360	-135	90	315	765
10,000	-400	-550	-550	-550	-375	-125	125	375	875
11,000	-410	-700	-700	-675	-400	-125	150	425	975
12,000	-440	-776	-870	-745	-445	-145	155	455	1055
13,000	-480	-854	-1036	-835	-510	-185	140	465	1115
14,000	-520	-952	-1148	-945	-595	-245	105	455	1155
15,000	-560	-1070	-1230	-1065	-700	-325	50	425	1175
16,000	-600	-1200	-1307	-1131	-825	-425	-25	375	1175
17,000	-640	-1338	-1404	-1217	-970	-545	-120	305	1155
18,000	-680	-1464	-1495	-1303	-1105	-665	-215	235	1135
19,000	-720	-1598	-1599	-1409	-1200	-805	-330	145	1095
20,000	-760	-1720	-1695	-1515	-1295	-945	-445	55	1055
22,000	-840	-1947	-1891	-1751	-1525	-1265	-715	-165	995
24,000	-920	-2115	-2091	-1999	-1795	-1531	-1025	-425	895
26,000	-1000	-2299	-2315	-2259	-2095	-1819	-1375	-701	795
28,000	-1080	-2499	-2555	-2531	-2415	-2147	-1765	-993	655
30,000	-1160	-2715	-2815	-2835	-2755	-2515	-2155	-1325	515
32,000	-1240	-2939	-3099	-3155	-3115	-2915	-2499	-1665	335
34,000	-1320	-3139	-3363	-3467	-3455	-3291	-2843	-2005	195
36,000	-1380	-3315	-3603	-3763	-3795	-3631	-3163	-2329	55
38,000	-1440	-3487	-3847	-4063	-4135	-3979	-3499	-2657	-65
40,000	-1500	-3635	-4075	-4355	-4475	-4315	-3835	-2985	-185
50,000	-1700	-4375	-5075	-5675	-5925	-5815	-5325	-4335	-685
60,000	-1960	-5055	-6015	-6775	-7175	-7155	-6575	-5475	-1345
70,000	-2160	-5715	-6865	-7695	-8165	-8175	-7645	-6615	-2045
80,000	-2260	-6315	-7595	-8455	-8935	-8955	-8635	-7675	-2745
90,000	-2260	-6855	-8225	-9095	-9485	-9675	-9525	-8675	-3445
100,000	-2260	-7335	-8775	-9635	-10035	-10335	-10335	-9635	-4145
110,000	-2260	-7675	-9215	-10035	-10535	-10915	-11065	-10555	-4845
120,000	-2260	-8015	-9575	-10415	-11035	-11495	-11775	-11435	-5545
130,000	-2260	-8315	-9845	-10755	-11485	-12055	-12445	-12275	-6245
140,000	-2260	-8615	-10075	-11055	-11935	-12595	-13075	-13075	-6945
150,000	-2260	-8875	-10285	-11335	-12335	-13135	-13685	-13835	-7645
160,000	-2260	-9135	-10495	-11615	-12735	-13635	-14295	-14555	-8345
170,000	-2260	-9355	-10705	-11895	-13085	-14275	-14895	-15275	-9045
180,000	-2260	-9575	-10915	-12175	-13435	-14615	-15475	-15975	-9745
190,000	-2260	-9755	-11125	-12455	-13785	-15075	-16055	-16655	-10445
200,000	-2260	-9935	-11335	-12735	-14135	-15535	-16635	-17335	-11145

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1991	R	R	R	R	R	R	R	R	R
1,000	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	80
6,000	0	0	0	0	0	0	0	44	260
7,000	0	0	0	0	0	0	62	188	440
8,000	0	0	0	0	0	44	188	332	620
9,000	0	0	0	0	0	152	314	476	830
10,000	0	0	0	0	80	260	440	620	1040
11,000	-150	-150	-150	-150	20	218	416	638	1100
12,000	-360	-360	-360	-316	-100	116	344	596	1100
13,000	-400	-600	-600	-484	-250	-16	251	524	1100
14,000	-440	-840	-840	-652	-400	-136	158	452	1100
15,000	-480	-1080	-1080	-820	-550	-250	65	380	1100
16,000	-500	-1160	-1276	-988	-700	-364	-28	332	1100
17,000	-550	-1270	-1492	-1186	-865	-508	-151	254	1100
18,000	-600	-1380	-1588	-1384	-1030	-652	-256	176	1100
19,000	-650	-1486	-1664	-1582	-1195	-796	-358	98	1100
20,000	-700	-1580	-1740	-1780	-1360	-940	-460	20	1100
22,000	-820	-1828	-1944	-1972	-1750	-1252	-724	-148	1100
24,000	-940	-2032	-2128	-2164	-2140	-1564	-964	-316	1100
26,000	-1090	-2252	-2372	-2404	-2360	-1936	-1246	-520	1080
28,000	-1210	-2456	-2604	-2632	-2580	-2284	-1528	-700	1060
30,000	-1390	-2720	-2870	-2920	-2860	-2680	-1840	-940	1020
32,000	-1510	-2966	-3128	-3184	-3120	-2916	-2140	-1148	980
34,000	-1690	-3242	-3446	-3500	-3410	-3200	-2500	-1416	920
36,000	-1840	-3518	-3758	-3800	-3700	-3460	-2836	-1668	860
38,000	-1980	-3802	-4054	-4120	-4010	-3736	-3188	-1924	800
40,000	-2120	-4050	-4350	-4440	-4320	-4000	-3540	-2180	740
50,000	-2550	-5260	-5770	-5950	-5780	-5340	-4680	-3440	360
60,000	-2840	-6210	-6960	-7260	-7130	-6600	-5760	-4740	-180
70,000	-3040	-6940	-7880	-8340	-8270	-7710	-6820	-5700	-780
80,000	-3140	-7540	-8580	-9130	-9180	-8690	-7840	-6640	-1380
90,000	-3140	-8020	-9120	-9710	-9880	-9580	-8800	-7560	-1980
100,000	-3140	-8440	-9580	-10180	-10430	-10380	-9730	-8480	-2580
110,000	-3140	-8720	-9930	-10540	-10930	-11060	-10570	-9360	-3180
120,000	-3140	-9000	-10200	-10880	-11380	-11650	-11380	-10240	-3780
130,000	-3140	-9240	-10410	-11180	-11780	-12190	-12130	-11090	-4380
140,000	-3140	-9480	-10600	-11440	-12180	-12700	-12820	-11910	-4980
150,000	-3140	-9680	-10780	-11680	-12530	-13180	-13480	-12730	-5580
160,000	-3140	-9880	-10960	-11920	-12880	-13620	-14050	-13490	-6180
170,000	-3140	-10040	-11140	-12160	-13180	-14060	-14610	-14250	-6780
180,000	-3140	-10200	-11320	-12400	-13480	-14480	-15150	-14980	-7380
190,000	-3140	-10340	-11500	-12640	-13780	-14880	-15670	-15680	-7980
200,000	-3140	-10480	-11680	-12880	-14080	-15280	-16180	-16380	-8580

DIFFERENCES IN TAXES PAYABLE BETWEEN UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1992	R	R	R	R	R	R	R	R	R
1,000	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	160
7,000	0	0	0	0	0	0	0	88	340
8,000	0	0	0	0	0	0	88	232	520
9,000	0	0	0	0	0	52	214	376	730
10,000	0	0	0	0	0	160	340	520	940
11,000	-135	-135	-135	-135	-65	133	331	553	1015
12,000	-345	-345	-345	-345	-185	31	259	511	1015
13,000	-385	-555	-555	-539	-305	-71	196	469	1045
14,000	-405	-765	-765	-677	-425	-161	133	427	1075
15,000	-425	-975	-975	-815	-545	-245	70	385	1105
16,000	-465	-1093	-1225	-993	-705	-369	-33	327	1095
17,000	-505	-1191	-1475	-1171	-850	-493	-136	269	1115
18,000	-545	-1289	-1579	-1349	-995	-617	-221	211	1135
19,000	-585	-1383	-1642	-1527	-1140	-741	-303	153	1155
20,000	-625	-1465	-1705	-1705	-1285	-865	-385	95	1175
22,000	-745	-1709	-1903	-1909	-1655	-1157	-629	-53	1195
24,000	-865	-1953	-2081	-2093	-2025	-1449	-849	-201	1215
26,000	-995	-2205	-2299	-2305	-2235	-1781	-1091	-365	1235
28,000	-1135	-2425	-2545	-2545	-2465	-2129	-1373	-545	1215
30,000	-1275	-2645	-2765	-2785	-2695	-2465	-1625	-725	1235
32,000	-1415	-2907	-3037	-3061	-2965	-2729	-1925	-933	1195
34,000	-1555	-3139	-3309	-3329	-3205	-2961	-2225	-1141	1195
36,000	-1695	-3401	-3605	-3611	-3475	-3199	-2531	-1363	1165
38,000	-1835	-3681	-3895	-3923	-3775	-3467	-2863	-1599	1125
40,000	-1975	-3925	-4185	-4235	-4075	-3735	-3195	-1835	1085
50,000	-2375	-5085	-5545	-5675	-5455	-4965	-4255	-2965	835
60,000	-2665	-6015	-6705	-6945	-6755	-6165	-5265	-4165	395
70,000	-2865	-6725	-7595	-7985	-7845	-7215	-6255	-5065	-105
80,000	-2965	-7305	-8265	-8735	-8705	-8135	-7205	-5925	-605
90,000	-2965	-7765	-8775	-9275	-9355	-8965	-8095	-6765	-1105
100,000	-2965	-8165	-9205	-9705	-9855	-9705	-8955	-7605	-1605
110,000	-2965	-8425	-9525	-10025	-10305	-10325	-9725	-8405	-2105
120,000	-2965	-8685	-9765	-10325	-10705	-10855	-10465	-9205	-2605
130,000	-2965	-8905	-9945	-10585	-11055	-11335	-11145	-9975	-3105
140,000	-2965	-9125	-10105	-10805	-11405	-11785	-11765	-10715	-3605
150,000	-2965	-9305	-10255	-11005	-11705	-12205	-12355	-11455	-4105
160,000	-2965	-9485	-10405	-11205	-12005	-12585	-12855	-12135	-4605
170,000	-2965	-9625	-10555	-11405	-12255	-12965	-13345	-12815	-5105
180,000	-2965	-9765	-10705	-11605	-12505	-13325	-13815	-13465	-5605
190,000	-2965	-9885	-10855	-11805	-12755	-13665	-14265	-14085	-6105
200,000	-2965	-10005	-11005	-12005	-13005	-14005	-14705	-14705	-6605

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1993	R	R	R	R	R	R	R	R	R
1,000	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	140
7,000	0	0	0	0	0	0	0	64	330
8,000	0	0	0	0	0	0	64	216	520
9,000	0	0	0	0	0	26	197	368	710
10,000	0	0	0	0	0	140	330	520	900
11,000	-60	-60	-60	-60	-15	194	403	612	1050
12,000	-270	-270	-270	-270	-130	98	326	554	1050
13,000	-415	-480	-480	-480	-245	2	249	504	1050
14,000	-445	-690	-690	-626	-360	-94	172	462	1050
15,000	-425	-900	-900	-760	-475	-190	105	420	1050
16,000	-465	-1083	-1140	-924	-620	-316	12	348	1050
17,000	-505	-1171	-1380	-1088	-765	-438	-81	276	1050
18,000	-545	-1259	-1575	-1252	-910	-552	-174	204	1050
19,000	-585	-1345	-1625	-1416	-1055	-666	-267	138	1050
20,000	-625	-1425	-1675	-1580	-1200	-780	-360	90	1050
22,000	-765	-1665	-1851	-1855	-1550	-1088	-614	-86	1050
24,000	-905	-1905	-2017	-2035	-1900	-1396	-838	-262	1050
26,000	-1045	-2137	-2183	-2201	-2155	-1686	-1062	-406	1050
28,000	-1185	-2297	-2349	-2353	-2315	-1958	-1286	-518	1050
30,000	-1325	-2445	-2505	-2505	-2475	-2230	-1470	-630	1050
32,000	-1485	-2753	-2817	-2817	-2755	-2605	-1798	-902	1050
34,000	-1645	-3061	-3125	-3125	-3035	-2869	-2126	-1174	1050
36,000	-1805	-3369	-3425	-3425	-3315	-3101	-2454	-1446	1050
38,000	-1965	-3649	-3725	-3719	-3595	-3331	-2782	-1686	1050
40,000	-2125	-3845	-4025	-3995	-3875	-3555	-3110	-1830	1050
50,000	-2625	-5325	-5675	-5875	-5525	-5175	-4375	-3050	750
60,000	-2765	-6265	-7075	-7315	-7315	-6415	-5455	-4250	510
70,000	-2865	-6965	-8095	-8655	-8415	-7675	-6485	-5105	210
80,000	-2965	-7495	-8735	-9515	-9515	-8715	-7375	-5815	-90
90,000	-2965	-7955	-9295	-10015	-10115	-9535	-8245	-6515	-390
100,000	-2965	-8415	-9815	-10415	-10715	-10315	-9115	-7215	-690
110,000	-2965	-8715	-10095	-10675	-10965	-10775	-9775	-7895	-990
120,000	-2965	-9015	-10335	-10935	-11215	-11235	-10435	-8575	-1290
130,000	-2965	-9315	-10545	-11155	-11415	-11595	-11095	-9255	-1590
140,000	-2965	-9615	-10715	-11295	-11615	-11855	-11595	-9935	-1890
150,000	-2965	-9915	-10865	-11415	-11815	-12115	-12015	-10615	-2190
160,000	-2965	-10055	-11015	-11535	-12015	-12335	-12435	-11155	-2490
170,000	-2965	-10195	-11145	-11655	-12165	-12555	-12805	-11695	-2790
180,000	-2965	-10335	-11235	-11775	-12315	-12775	-13075	-12235	-3090
190,000	-2965	-10475	-11325	-11895	-12465	-12995	-13345	-12775	-3390
200,000	-2965	-10615	-11415	-12015	-12615	-13215	-13615	-13315	-3690

DIFFERENCES IN TAX PAYABLE
MARRIED COUPLE - INDIVIDUALS
100:0

TAXABLE INCOME	1985	1986	1987	1988	1989	1990	1991	1992	1993
5000	-131	-79	-116	-45	0	0	0	0	0
10000	-265	-300	-266	-290	-350	-400	0	0	0
15000	-491	-491	-436	-447	-510	-560	-480	-425	-425
20000	-799	-711	-631	-653	-710	-760	-700	-625	-625
30000	-1558	-1150	-1021	-1063	-1110	-1160	-1390	-1275	-1325
40000	-1899	-1502	-1333	-1447	-1450	-1500	-2120	-1975	-2125
50000	-1902	-1907	-1693	-1884	-1650	-1700	-2550	-2375	-2625
60000	-1902	-2128	-1889	-1787	-1910	-1960	-2840	-2665	-2765
70000	-1902	-2134	-1895	-1790	-2110	-2160	-3040	-2865	-2865
80000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
90000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
100000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
110000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
120000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
130000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
140000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
150000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
160000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
170000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
180000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
190000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965
200000	-1902	-2134	-1895	-1790	-2210	-2260	-3140	-2965	-2965

DIFFERENCES IN TAX PAYABLE
MARRIED COUPLE - INDIVIDUALS
50:50

TAXABLE INCOME	1985	1986	1987	1988	1989	1990	1991	1992	1993
5000	-205	-79	-116	-45	0	0	0	0	0
10000	-503	-574	-540	-627	-650	-375	80	0	0
15000	-889	-848	-789	-855	-907	-700	-550	-545	-475
20000	-1311	-1190	-1158	-1227	-1267	-1295	-1360	-1285	-1200
30000	-2230	-1800	-2079	-2244	-2461	-2755	-2860	-2695	-2475
40000	-2683	-2272	-3019	-3247	-4547	-4475	-4320	-4075	-3875
50000	-2702	-2695	-3878	-4093	-5586	-5925	-5780	-5455	-5525
60000	-2702	-2949	-4625	-4757	-6089	-7175	-7130	-6755	-7315
70000	-2702	-2990	-5220	-5333	-6538	-8165	-8270	-7845	-8415
80000	-2702	-2990	-5695	-5840	-6889	-8935	-9180	-8705	-9515
90000	-2702	-2990	-6170	-6346	-7150	-9485	-9880	-9355	-10115
100000	-2702	-2990	-6645	-6852	-7317	-10035	-10430	-9855	-10715
110000	-2702	-2990	-7120	-7358	-7778	-10535	-10930	-10305	-10965
120000	-2702	-2990	-7595	-7865	-8285	-11485	-11380	-10705	-11215
130000	-2702	-2990	-8070	-8371	-8791	-11935	-11780	-11055	-11415
140000	-2702	-2990	-8545	-8877	-9297	-12335	-12180	-11405	-11615
150000	-2702	-2990	-9020	-9383	-9803	-12735	-12530	-11705	-11815
160000	-2702	-2990	-9495	-9890	-10310	-13085	-12880	-12005	-12015
170000	-2702	-2990	-9970	-10396	-10816	-13435	-13180	-12255	-12165
180000	-2702	-2990	-10445	-10902	-11322	-13785	-13480	-12505	-12315
190000	-2702	-2990	-10920	-11408	-11828	-14135	-13780	-12755	-12465
200000	-2702	-2990	-11395	-11915	-12335	-14135	-14080	-13005	-12615

DIFFERENCES IN TAX PAYABLE
MARRIED COUPLE - INDIVIDUALS
0:100

TAXABLE INCOME	1985	1986	1987	1988	1989	1990	1991	1992	1993
5000	-205	-79	-116	-45	0	175	80	0	0
10000	-503	-574	-570	-627	-650	875	1040	940	900
15000	-889	-848	-988	-1028	-1072	1175	1100	1105	1050
20000	-1311	-1190	-1646	-1751	-1775	1055	1100	1175	1050
30000	-2230	-1800	-3056	-3310	-3307	515	1020	1235	1050
40000	-2683	-2272	-4625	-4961	-5102	-185	740	1085	1050
50000	-2702	-2695	-6061	-6425	-6276	-685	360	835	750
60000	-2702	-2949	-7317	-7689	-7545	-1345	-180	395	510
70000	-2702	-2990	-8463	-8817	-8825	-2045	-780	-105	210
80000	-2702	-2990	-9495	-9890	-10050	-2745	-1380	-605	-90
90000	-2702	-2990	-10445	-10902	-11217	-3445	-1980	-1105	-390
100000	-2702	-2990	-11395	-11915	-12310	-4145	-2580	-1605	-690
110000	-2702	-2990	-12345	-12927	-13347	-4845	-3180	-2105	-990
120000	-2702	-2990	-13295	-13940	-14360	-5545	-3780	-2605	-1290
130000	-2702	-2990	-14245	-14952	-15372	-6245	-4380	-3105	-1590
140000	-2702	-2990	-15195	-15965	-16385	-6945	-4980	-3605	-1890
150000	-2702	-2990	-16145	-16977	-17397	-7645	-5580	-4105	-2190
160000	-2702	-2990	-17095	-17990	-18410	-8345	-6180	-4605	-2490
170000	-2702	-2990	-18045	-19002	-19422	-9045	-6780	-5105	-2790
180000	-2702	-2990	-18995	-20015	-20435	-9745	-7380	-5605	-3090
190000	-2702	-2990	-19945	-21027	-21447	-10445	-7980	-6105	-3390
200000	-2702	-2990	-20895	-22040	-22460	-11145	-8580	-6605	-3690

APPENDIX C:

AVERAGE ANNUAL CONSUMER PRICE INDEX AND INFLATION RATE FOR THE PERIOD
1985 TO 1994

<u>YEAR</u>	<u>CONSUMER PRICE INDEX</u>	<u>INFLATION RATE</u>
1985	49,1	16,4%
1986	58,2	18,5%
1987	67,6	16,2%
1988	76,2	12,7%
1989	87,4	14,7%
1990	100,0	14,4%
1991	115,3	15,3%
1992	131,3	13,9%
1993	144,1	9,7%

*Source: South African Reserve Bank; Quarterly Bulletin; March 1994

1992/1993

100:0 MARRIED

80:20

INFLATION

1985 ADJUSTED

INCOME	INCOME	UNMARRIED	M.RATE%	HUSBAND	WIFE	COMBINED	M.RATE%	HUSBAND	TAX	WIFE	TAX	COMBINED	M.RATE%
5000	17050	1392	8.164222	885	NIL	885	5.190615	13640	216.6	3410	-320.3	216.6	1.270381
10000	34100	6376	18.69794	4723	NIL	4723	13.85043	27280	3003.8	6820	295.8	3299.6	9.676246
15000	51150	13083	25.57771	10446.5	NIL	10446.5	20.42326	40920	6706.2	10230	948.3	7654.5	14.96480
20000	68200	20366	29.86217	17519	NIL	17519	25.68768	54560	11844.6	13640	1664.4	13509	19.80791
30000	102300	35029	34.24144	32064	NIL	32064	31.34310	81840	23266.2	20460	3278.8	26545	25.94819
40000	136400	49692	36.43108	46727	NIL	46727	34.25733	109120	34996.6	27280	5188.4	40185	29.46114
50000	170500	64355	37.74486	61390	NIL	61390	36.00586	136400	46727	34100	7426	54153	31.76129
60000	204600	79018	38.62072	76053	NIL	76053	37.17155	163680	58457.4	40920	9899.6	68357	33.41006
70000	238700	93681	39.24633	90716	NIL	90716	38.00418	190960	70187.8	47740	12491.2	82679	34.63720
80000	272800	108344	39.71554	105379	NIL	105379	38.62866	218240	81918.2	54560	15174	97092.2	35.59098
90000	306900	123007	40.08048	120042	NIL	120042	39.11436	245520	93648.6	61380	17902	111550.6	36.34753
100000	341000	137670	40.37243	134705	NIL	134705	39.50293	272800	105379	68200	20630	126009	36.95278

70:30

MARRIED

70:30

60:40

MARRIED

1985												
INCOME	HUSBAND	TAX	WIFE	TAX	COMBINED	M.RATE%	HUSBAND	TAX	WIFE	TAX	COMBINED	M.RATE%
5000	11935	-107.35	5115	-28.15	NIL	0	10230	-431.3	6820	295.8	295.8	1.734897
10000	23870	2287.7	10230	948.3	3236	9.489736	20460	1571.6	13640	1664.4	3236	9.489736
15000	35805	5200.4	15345	2022.45	7222.85	14.12091	30690	3768.2	20460	3278.8	7047	13.77712
20000	47740	9161.4	20460	3278.8	12440.2	18.24076	40920	6706.2	27280	5188.4	11894.6	17.44076
30000	71610	18951.2	30690	6198.4	25149.6	24.58416	61380	14654.6	40920	9899.6	24554.2	24.00215
40000	95480	29131.4	40920	9899.6	39031	28.61510	81840	23266.2	54560	15174	38440.2	28.18196
50000	119350	39395.5	51150	13810	53205.5	31.20557	102300	32064	68200	20630	52694	30.90557
60000	143220	49659.6	61380	17902	67561.6	33.02130	122760	40861.8	81840	26086	66947.8	32.72130
70000	167090	59923.7	71610	21994	81917.7	34.31826	143220	49659.6	95480	31542	81201.6	34.01826
80000	190960	70187.8	81840	26086	96273.8	35.29098	163680	58457.4	109120	36998	95455.4	34.99098
90000	214830	80451.9	92070	30178	110629.9	36.04753	184140	67255.2	122760	42454	109709.2	35.74753
100000	238700	90716	102300	34270	124986	36.65278	204600	76053	136400	47910	123963	36.35278

50:50

MARRIED

40:60

MARRIED

1985												
INCOME	HUSBAND	TAX	WIFE	TAX	COMBINED	M.RATE%	HUSBAND	TAX	WIFE	TAX	COMBINED	M.RATE%
5000	8525	-775.75	8525	619.75	619.75	3.634897	6820	-1065.6	10230	948.3	948.3	5.561876
10000	17050	885	17050	2442	3327	9.756598	13640	216.6	20460	3278.8	3495.4	10.25043
15000	25575	2645.75	25575	4711	7356.75	14.38269	20460	1571.6	30690	6198.4	7770	15.19061
20000	34100	4723	34100	7426	12149	17.81378	27280	3003.8	40920	9899.6	12903.4	18.91994
30000	51150	10446.5	51150	13810	24256.5	23.71114	40920	6706.2	61380	17902	24608.2	24.05493
40000	68200	17519	68200	20630	38149	27.96847	54560	11844.6	81840	26086	37930.6	27.80835
50000	85250	24732.5	85250	27450	52182.5	30.60557	68200	10791.65	102300	34270	45061.65	26.42912
60000	102300	32064	102300	34270	66334	32.42130	81840	23266.2	122760	42454	65720.2	32.12130
70000	119350	39395.5	119350	41090	80485.5	33.71826	95480	29131.4	143220	50638	79769.4	33.41826
80000	136400	46727	136400	47910	94637	34.69098	109120	34996.6	163680	58822	93818.6	34.39098
90000	153450	54058.5	153450	54730	108788.5	35.44753	122760	40861.8	184140	67006	107867.8	35.14753
100000	170500	61390	170500	61550	122940	36.05278	136400	46727	204600	75190	121917	35.75278

30:70

MARRIED

20:80

MARRIED

0:100

1985																
INCOME	HUSBAND	TAX	WIFE	TAX	COMBINED	M.RATE%	HUSBAND	TAX	WIFE	TAX	COMBINED	M.RATE%	HUSBAND	WIFE	COMBINED	M.RATE%
5000	5115	-1354.3	11935	1306.35	1306.35	7.661876	3410	-1645.3	13640	1664.4	1664.4	9.761876	NIL	17050	2442	14.32258
10000	10230	-431.3	23870	4233.6	4233.6	12.41524	6820	-1047.4	27280	5188.4	5188.4	15.21524	NIL	34100	7426	21.77712
15000	15345	544	35805	8039.8	8583.8	16.78162	10230	-431.3	40920	9899.6	9899.6	19.35405	NIL	51150	13810	26.99902
20000	20460	1571.6	47740	12491.2	14062.8	20.61994	13640	216.6	54560	15174	15390.6	22.56686	NIL	68200	20630	30.24926
30000	30690	2065.296	71610	21994	24059.29	23.51837	20460	1571.6	81840	26086	27657.6	27.03577	NIL	102300	34270	33.49951
40000	40920	6706.2	95480	31542	38248.2	28.04120	27280	3003.8	109120	36998	40001.8	29.32683	NIL	136400	47910	35.12463
50000	51150	10446.5	119350	41090	51536.5	30.22668	34100	9605.22	136400	47910	57515.22	33.73326	NIL	170500	61550	36.09970
60000	61380	14654.6	143220	50638	65292.6	31.91231	40920	6706.2	163680	58822	65528.2	32.02746	NIL	204600	75190	36.74975
70000	71610	18867.3	167090	60186	79053.3	33.11826	47740	9161.4	190960	69734	78895.4	33.05211	NIL	238700	88830	37.21407
80000	81840	23266.2	190960	69734	93000.2	34.09098	54560	11844.6	218240	80646	92490.6	33.90417	NIL	272800	102470	37.56231
90000	92070	27665.1	214830	79282	106947.1	34.84753	61380	14654.6	245520	91558	106212.6	34.60821	NIL	306900	116110	37.83317

ANALYSIS OF THE NUMBER OF TAXPAYERS AND TAX ASSESSED IN INCOME GROUPS IN 1993

INCOME GROUP	MARRIED PERSONS		UNMARRIED PERSONS		MARRIED WOMEN		TOTAL	
	NUMBER	TAX	NUMBER	TAX	NUMBER	TAX	NUMBER	TAX
R	R	R		R		R		R
0	5,000	0	0	0	0	0	0	
5 000	10,000	0	0	0	65,665	25,337,816	65,665	25,337,816
10,000	15,000	153,406	198,298	95,668,766	104,212	153,292,298	455,916	275,409,893
15,000	20,000	496,701	179,785	269,595,801	95,064	224,162,902	771,550	852,778,151
20,000	25,000	340,158	123,030	341,401,725	95,371	326,970,761	558,559	1,264,474,538
25,000	30,000	224,551	75,079	312,060,943	83,965	422,347,511	383,595	1,359,668,662
30,000	35,000	161,404	59,660	342,442,327	69,060	468,637,746	290,124	1,459,625,840
35,000	40,000	121,889	43,586	329,550,001	47,416	415,589,506	212,891	1,408,524,785
40,000	45,000	110,027	36,490	346,759,112	33,607	349,215,700	180,124	1,475,773,919
45,000	50,000	104,162	29,921	345,669,829	22,782	279,250,472	156,865	1,549,891,261
50,000	60,000	181,689	38,761	563,577,919	26,940	404,972,343	247,391	3,107,565,497
60,000	70,000	133,575	22,914	429,590,553	11,054	209,955,029	167,544	2,756,570,517
70,000	80,000	88,394	12,277	283,101,199	3,871	88,923,569	104,542	2,142,423,955
80,000	90,000	113,339	13,586	371,939,175	6,958	190,462,108	133,883	3,310,989,081
90,000	100,000	73,585	8,251	261,510,113	4,214	130,425,284	86,051	2,494,869,949
100,000	150,000	98,105	9,409	391,207,665	5,372	210,537,015	112,886	4,416,415,652
150,000	+	38,290	3,105	343,322,222	1,554	220,059,542	42,949	4,259,638,008
		2,439,276	854,151	5,027,397,348	677,107	4,120,139,600	3,970,534	32,159,957,522

ANALYSIS OF THE NUMBER OF TAXPAYERS AND TAX ASSESSED IN INCOME GROUPS IN 1994

INCOME GROUP		MARRIED PERSONS		UNMARRIED PERSONS		MARRIED WOMEN		TOTAL	
		NUMBER	TAX	NUMBER	TAX	NUMBER	TAX	NUMBER	TAX
R	R		R		R		R		R
0	5,000	0	0	0	0	0	0	0	
5 000	10,000	0	0	0	0	66,730	25,749,002	66,730	25,749,002
10,000	15,000	181,383	31,515,427	218,563	104,268,187	105,903	155,779,954	505,549	291,563,568
15,000	20,000	543,292	399,470,808	194,864	293,207,478	96,607	227,800,659	834,763	920,478,945
20,000	25,000	390,151	687,022,230	140,415	388,908,650	96,919	332,276,903	627,485	1,408,217,783
25,000	30,000	269,131	752,053,223	96,875	403,602,329	85,328	429,201,444	451,334	1,584,856,996
30,000	40,000	336,958	1,564,589,765	129,696	846,966,543	118,367	898,576,655	585,020	3,310,132,963
40,000	50,000	253,009	1,995,875,811	79,036	820,749,982	57,304	638,665,037	389,349	3,455,290,830
50,000	60,000	233,287	2,769,208,703	51,220	750,930,233	27,377	411,544,309	311,885	3,931,683,244
60,000	70,000	209,749	3,336,440,225	39,017	735,419,392	11,233	213,362,218	259,998	4,285,221,835
70,000	80,000	97,281	1,953,149,088	13,354	308,389,163	3,934	90,366,637	114,569	2,351,904,887
80,000	90,000	68,523	1,665,205,139	8,218	225,287,035	7,071	193,552,962	83,813	2,084,045,136
90,000	100,000	46,289	1,324,132,965	5,063	160,534,655	4,283	132,541,850	55,634	1,617,209,470
100,000	150,000	121,353	4,734,728,143	11,051	459,542,620	5,460	213,953,648	137,863	5,408,224,412
150,000		44,859	4,406,121,588	3,161	354,125,085	1,579	223,630,708	49,599	4,983,877,381
		2,795,265	25,619,513,115	990,233	5,851,931,350	688,095	4,187,001,987	4,473,594	35,658,446,452

APPENDIX F

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

TAX CALCULATION BASED ON THE KATZ COMMISSION PROPOSALS

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
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1992/1993	R	R	R	R	R	R	R	R	R
1,000	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0
8,000	0	0	0	0	0	0	0	0	0
9,000	0	0	0	0	0	0	0	0	0
10,000	0	0	0	0	0	0	0	0	0
11,000	0	0	0	0	0	0	0	0	0
12,000	0	0	0	0	0	0	0	0	0
13,000	0	0	0	0	0	0	0	0	0
14,000	0	0	0	0	0	0	0	0	0
15,000	0	0	0	0	0	0	0	0	0
16,000	0	0	0	0	0	0	0	0	0
17,000	0	0	0	0	0	0	0	0	0
18,000	0	0	0	0	0	0	0	0	0
19,000	0	0	0	0	0	0	0	0	0
20,000	0	0	0	0	0	0	0	0	0
22,000	0	0	0	0	0	0	0	0	0
24,000	0	0	0	0	0	0	0	0	0
26,000	0	0	0	0	0	0	0	0	0
28,000	0	0	0	0	0	0	0	0	0
30,000	0	0	0	0	0	0	0	0	0
32,000	0	-540	-540	-540	-540	-540	-540	-540	0
34,000	0	-1080	-1080	-1080	-1080	-1080	-1080	-1080	0
36,000	0	-1620	-1620	-1620	-1620	-1620	-1620	-1620	0
38,000	0	-2052	-2160	-2160	-2160	-2160	-2160	-2052	0
40,000	0	-2160	-2700	-2700	-2700	-2700	-2700	-2160	0
50,000	0	-2700	-4050	-5400	-5400	-5400	-4050	-2700	0
60,000	0	-3540	-5160	-6780	-8400	-6780	-5160	-3540	0
70,000	0	-4200	-6270	-8160	-8700	-8160	-6270	-4200	0
80,000	0	-4800	-7200	-9000	-9000	-9000	-7200	-4800	0
90,000	0	-5400	-8100	-9180	-9300	-9180	-8100	-5400	0
100,000	0	-6000	-9000	-9300	-9600	-9300	-9000	-6000	0
110,000	0	-6900	-9390	-9720	-9900	-9720	-9390	-6900	0
120,000	0	-7800	-9780	-10140	-10200	-10140	-9780	-7800	0
130,000	0	-8580	-10170	-10500	-10500	-10500	-10170	-8580	0
140,000	0	-9240	-10560	-10800	-10800	-10800	-10560	-9240	0
150,000	0	-9900	-10800	-11100	-11100	-11100	-10800	-9900	0
160,000	0	-10320	-11280	-11700	-11700	-11700	-11280	-10320	0
170,000	0	-10740	-11730	-12240	-12300	-12240	-11730	-10740	0
180,000	0	-11160	-12120	-12660	-12900	-12660	-12120	-11160	0
190,000	0	-11520	-12510	-13080	-13500	-13080	-12510	-11520	0

THE 1994 TAXATION LEGISLATION ADJUSTED FOR TRANSFERABLE ALLOWANCES

R2 225 AND R900 TRANSFERABLE

INCOME	1992/1993	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1992/1993 UNMARRIED COMBINED COMBINED COMBINED COMBINED COMBINED COMBINED COMBINED COMBINED COMBINED COMBINED										
1,000	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0	0
8,000	0	0	0	0	0	0	0	0	0	0
9,000	0	0	0	0	0	0	0	0	0	0
10,000	0	0	0	0	0	0	0	0	0	0
11,000	60	0	0	0	0	0	0	0	0	0
12,000	270	0	0	0	0	0	0	0	0	0
13,000	480	65	0	0	0	0	0	0	0	0
14,000	690	245	0	0	0	0	0	0	0	0
15,000	900	475	0	0	0	0	0	0	0	0
16,000	1140	675	0	0	0	0	0	0	0	0
17,000	1380	875	0	0	0	0	0	0	9	205
18,000	1620	1075	73	45	45	55	89	143	211	445
19,000	1860	1275	261	235	235	240	287	344	419	685
20,000	2100	1475	455	425	425	425	485	545	645	925
22,000	2660	1895	843	809	805	825	881	959	1097	1485
24,000	3220	2315	1231	1203	1185	1225	1277	1403	1549	2045
26,000	3780	2735	1631	1597	1579	1625	1695	1847	2035	2605
28,000	4340	3155	2043	1991	1987	2025	2135	2291	2555	3165
30,000	4900	3575	2455	2395	2395	2425	2575	2775	3072	3725
32,000	5620	4135	2867	2803	2803	2865	3015	3275	3595	4445
34,000	6340	4695	3279	3215	3215	3305	3471	3777	4115	5165
36,000	7060	5255	3691	3635	3635	3745	3959	4283	4635	5885
38,000	7780	5815	4131	4055	4061	4185	4449	4789	5187	6605
40,000	8500	6375	4655	4475	4505	4625	4945	5295	5835	7325
50,000	12600	9975	7275	6925	6725	7075	7425	8225	9075	11125
60,000	16840	14075	10575	9765	9525	9525	10425	11385	12495	15125
70,000	21140	18275	14175	13045	12485	12725	13465	14655	16035	19125
80,000	25440	22475	17945	16705	15925	15925	16725	18065	19625	23125
90,000	29740	26775	21785	20445	19725	19625	20205	21495	23225	27125
100,000	34040	31075	25625	24225	23625	23325	23725	24925	26825	31125
110,000	38340	35375	29625	28245	27665	27375	27565	28565	30445	35125
120,000	42640	39675	33625	32305	31705	31425	31405	32205	34065	39125
130,000	46940	43975	37625	36395	35785	35525	35345	35845	37685	43125
140,000	51240	48275	41625	40525	39945	39625	39385	39645	41305	47125
150,000	55540	52575	45625	44675	44125	43725	43425	43525	44925	51125
160,000	59840	56875	49785	48825	48305	47825	47505	47405	48685	55125
170,000	64140	61175	53945	52995	52485	51975	51585	51335	52445	59125
180,000	68440	65475	58105	57205	56665	56125	55665	55365	56205	63125
190,000	72740	69775	62265	61415	60845	60275	59745	59395	59965	67125

APPENDIX G-2
CALCULATIONS FOR RECOMMENDATION TWO

TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	1994/1995	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
94/95	UNMARRIED	TOTAL TAX	TOTAL TAX	TOTAL TAX	TOTAL TAX	TOTAL TAX	TOTAL TAX	TOTAL TAX	TOTAL TAX	TAX
1,000	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0	0
8,000	0	0	0	0	0	0	0	0	0	0
9,000	0	0	0	0	0	0	0	0	0	0
10,000	0	0	0	0	0	0	0	0	0	0
11,000	60	0	0	0	0	0	0	0	0	0
12,000	270	0	0	0	0	0	0	0	0	0
13,000	480	65	95	95	95	95	95	95	0	65
14,000	690	245	285	285	285	285	285	285	102	245
15,000	900	475	475	475	475	475	475	0	270	475
16,000	1140	675	675	675	675	675	675	102	438	675
17,000	1380	875	875	875	875	875	0	249	606	875
18,000	1620	1075	1075	1075	1075	1075	18	396	774	1075
19,000	1860	1275	1275	1275	1275	1275	144	543	948	1275
20,000	2100	1475	1475	1475	1475	1475	270	690	1140	1475
22,000	2660	1895	1895	1895	1895	120	522	996	1524	1895
24,000	3220	2315	2315	2315	2315	540	774	1332	1908	2315
26,000	3780	2735	2735	2735	1044	960	1044	1668	2324	2735
28,000	4340	3155	3155	3155	1434	1380	1434	2004	2772	3155
30,000	4900	3575	3575	3575	1890	1800	1890	2380	3220	3575
32,000	5620	4135	4135	4135	2346	2280	2346	2772	3668	4135
34,000	6340	4695	4695	3164	2818	2760	2818	3164	4116	4695
36,000	7060	5255	5255	3574	3322	3240	3322	3574	4564	5255
38,000	7780	5815	5815	4092	3832	3720	3832	4092	5044	5815
40,000	8500	6375	6375	4610	4360	4200	4360	4610	5620	6375
50,000	12600	9975	9975	7600	7000	7000	7000	7600	8500	9975
60,000	16840	14075	12050	10940	10280	9800	10280	10940	12050	14075
70,000	21140	18275	15810	14570	13660	13400	13660	14570	15810	18275
80,000	25440	22475	19700	18340	17400	17000	17400	18340	19700	22475
90,000	29740	26775	23620	22190	21340	21100	21340	22190	23620	26775
100,000	34040	31075	27540	26040	25340	25200	25340	26040	27540	31075
110,000	38340	35375	31540	30130	29560	29400	29560	30130	31540	35375
120,000	42640	39675	35540	34220	33780	33680	33780	34220	35540	39675
130,000	46940	43975	39540	38310	38020	37980	38020	38310	39540	43975
140,000	51240	48275	43540	42500	42280	42280	42280	42500	43540	48275
150,000	55540	52575	47540	46740	46580	46580	46580	46740	47540	52575
160,000	59840	56875	51700	50980	50880	50880	50880	50980	51700	56875
170,000	64140	61175	55860	55230	55180	55180	55180	55230	55860	61175
180,000	68440	65475	60020	59500	59480	59480	59480	59500	60020	65475
190,000	72740	69775	64180	63780	63780	63780	63780	63780	64180	69775
200,000	77040	74075	68340	68080	68080	68080	68080	68080	68340	74075

APPENDIX G-3

RECOMMENDATION 3:

TAX PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE

(DIFFERENT INCOME COMBINATIONS) BASED ON THE KATZ COMMISSION PROPOSALS WITH DEPENDANT ALLOWANCE

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
UNMARRIED	TAX	JOINT	JOINT	JOINT	JOINT	JOINT	JOINT	JOINT	TAX
1,000	90	0	0	0	0	0	0	0	0
2,000	180	0	0	0	0	0	0	0	0
3,000	270	0	0	0	0	0	0	0	0
4,000	360	0	0	0	0	0	0	0	0
5,000	450	0	0	0	0	0	0	0	0
6,000	540	0	0	0	0	0	0	0	0
7,000	630	90	90	90	90	90	90	90	90
8,000	720	180	180	180	180	180	180	180	180
9,000	810	270	270	270	270	270	270	270	270
10,000	900	360	360	360	360	360	360	360	360
11,000	990	450	450	450	450	450	450	450	450
12,000	1080	540	540	540	540	540	540	540	540
13,000	1170	630	630	630	630	630	630	630	630
14,000	1260	720	720	720	720	720	720	720	720
15,000	1350	810	810	810	810	810	810	810	810
16,000	1440	900	900	900	900	900	900	900	900
17,000	1530	990	990	990	990	990	990	990	990
18,000	1620	1080	1080	1080	1080	1080	1080	1080	1080
19,000	1710	1170	1170	1170	1170	1170	1170	1170	1170
20,000	1800	1260	1260	1260	1260	1260	1260	1260	1260
22,000	1980	1440	1440	1440	1440	1440	1440	1440	1440
24,000	2160	1620	1620	1620	1620	1620	1620	1620	1620
26,000	2340	1800	1800	1800	2340	2340	2340	1800	1800
28,000	2520	1980	1980	1980	2520	2520	1980	1980	1980
30,000	2700	2160	2160	2160	2700	2700	2160	2160	2160
32,000	3420	2340	2340	2340	2880	2880	2340	2340	2340
34,000	4140	2520	2520	3060	3060	3060	3060	2520	2520
36,000	4860	2700	2700	3240	3240	3240	3240	2700	2700
38,000	5580	3420	3420	3420	3420	3420	3420	3420	3420
40,000	6300	4140	4140	3600	3600	3600	3600	4140	4140
50,000	9900	7740	7740	5850	4500	4500	5850	7740	7740
60,000	13800	11460	10260	8640	7020	5400	7020	8640	10260
70,000	17700	15360	13500	11430	9540	9000	9540	11430	13500
80,000	21600	19260	16800	14400	12600	12600	14400	16800	19260
90,000	25500	23160	20100	17400	16320	16200	16320	17400	20100
100,000	29400	27060	23400	20400	20100	19800	20100	20400	23400
110,000	33600	31080	26700	24210	23880	23700	23880	24210	26700
120,000	37800	35280	30000	28020	27660	27600	27660	28020	30000
130,000	42000	39480	33420	31830	31500	31500	31500	31830	33420
140,000	46200	43680	36960	35640	35400	35400	35400	35640	36960
150,000	50400	47880	40500	39600	39300	39300	39300	39600	40500
160,000	54900	52080	44580	43620	43200	43200	43200	43620	44580
170,000	59400	56280	48660	47670	47160	47100	47160	47670	48660
180,000	63900	60480	52740	51780	51240	51000	51240	51780	52740
190,000	68400	64680	56880	55890	55320	54900	55320	55890	56880
200,000	72900	68880	61200	60000	59400	58800	59400	60000	61200

APPENDIX G-4
RECOMMENDATION 4:

TAX PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE

(DIFFERENT INCOME COMBINATIONS) BASED ON THE KATZ COMMISSION'S PROPOSED RATES AND DEPENDANT REBATE

INCOME	1994/1995	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1994/1995 UNMARRIED COMBINED COMBINED COMBINED COMBINED COMBINED COMBINED COMBINED COMBINED COMBINED										
1,000	90	0	0	0	0	0	0	0	0	0
2,000	180	0	0	0	0	0	0	0	0	0
3,000	270	0	0	0	0	0	0	0	0	0
4,000	360	0	0	0	0	0	0	0	0	0
5,000	450	0	0	0	0	0	0	0	0	0
6,000	540	0	0	0	0	0	0	0	0	0
7,000	630	0	0	0	0	0	0	0	0	0
8,000	720	0	0	0	0	0	0	0	0	0
9,000	810	0	0	0	0	0	0	0	0	0
10,000	900	0	0	0	0	0	0	0	0	0
11,000	990	0	0	0	0	0	0	0	0	0
12,000	1080	0	0	0	0	0	0	0	0	0
13,000	1170	0	0	0	0	0	0	0	0	0
14,000	1260	0	0	0	0	0	0	0	0	0
15,000	1350	0	0	0	0	0	0	0	0	0
16,000	1440	0	0	0	0	0	0	0	0	0
17,000	1530	0	0	0	0	0	0	0	0	0
18,000	1620	0	0	0	0	0	0	0	0	0
19,000	1710	0	0	0	0	0	0	0	0	0
20,000	1800	0	0	0	0	0	0	0	0	0
22,000	1980	0	0	0	0	1980	0	0	0	0
24,000	2160	0	0	0	0	2160	0	0	0	0
26,000	2340	0	0	0	2340	2340	2340	0	0	0
28,000	2520	20	20	20	2520	2520	2520	20	20	20
30,000	2700	200	200	200	2700	2700	2700	200	200	200
32,000	3420	920	920	920	2880	2880	2880	920	920	920
34,000	4140	1640	1640	3060	3060	3060	3060	3060	1640	1640
36,000	4860	2360	2360	3240	3240	3240	3240	3240	2360	2360
38,000	5580	3080	3080	3420	3420	3420	3420	3420	3080	3080
40,000	6300	3800	3800	3600	3600	3600	3600	3600	3800	3800
50,000	9900	7400	7400	5850	4500	4500	4500	5850	7400	7400
60,000	13800	11300	10260	8640	7020	5400	7020	8640	10260	11300
70,000	17700	15200	13500	11430	9540	9000	9540	11430	13500	15200
80,000	21600	19100	16800	14400	12600	12600	12600	14400	16800	19100
90,000	25500	23000	20100	17400	16320	16200	16320	17400	20100	23000
100,000	29400	26900	23400	20400	20100	19800	20100	20400	23400	26900
110,000	33600	31100	26700	24210	23880	23700	23880	24210	26700	31100
120,000	37800	35300	30000	28020	27660	27600	27660	28020	30000	35300
130,000	42000	39500	33420	31830	31500	31500	31500	31830	33420	39500
140,000	46200	43700	36960	35640	35400	35400	35400	35640	36960	43700
150,000	50400	47900	40500	39600	39300	39300	39300	39600	40500	47900
160,000	54900	52100	44580	43620	43200	43200	43200	43620	44580	52100
170,000	59400	56300	48660	47670	47160	47100	47160	47670	48660	56300
180,000	63900	60500	52740	51780	51240	51000	51240	51780	52740	60500
190,000	68400	64700	56880	55890	55320	54900	55320	55890	56880	64700
200,000	72900	68900	61200	60000	59400	58800	59400	60000	61200	68900

APPENDIX G-5
RECOMMENDATION 5:

TAX PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE

(DIFFERENT INCOME COMBINATIONS) BASED ON THE KATZ COMMISSION PROPOSALS WITH 20% DEPENDANT ALLOWANCE
INCOME

		100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
UNMARRIED	TAX	JOINT/COM	JOINT/COM	JOINT/COM	JOINT/COM	JOINT/COM	JOINT/COM	JOINT/COM	JOINT/COM	TAX
1,000	90	0	0	0	0	0	0	0	0	0
2,000	180	0	0	0	0	0	0	0	0	0
3,000	270	0	0	0	0	0	0	0	0	0
4,000	360	0	0	0	0	0	0	0	0	0
5,000	450	0	0	0	0	0	0	0	0	0
6,000	540	0	0	0	0	0	0	0	0	0
7,000	630	90	90	90	90	90	90	90	90	90
8,000	720	180	180	180	180	180	180	180	180	180
9,000	810	270	270	270	270	270	270	270	270	270
10,000	900	360	360	360	360	360	360	360	360	360
11,000	990	450	450	450	450	450	450	450	450	450
12,000	1080	540	540	540	540	540	540	540	540	540
13,000	1170	630	630	630	630	630	630	630	630	630
14,000	1260	720	720	720	720	720	720	720	720	720
15,000	1350	810	810	810	810	810	810	810	810	810
16,000	1440	900	900	900	900	900	900	900	900	900
17,000	1530	990	990	990	990	990	990	990	990	990
18,000	1620	1080	1080	1080	1080	1080	1080	1080	1080	1080
19,000	1710	1170	1170	1170	1170	1170	1170	1170	1170	1170
20,000	1800	1260	1260	1260	1260	1260	1260	1260	1260	1260
22,000	1980	1440	1440	1440	1440	1980	1440	1440	1440	1440
24,000	2160	1620	1620	1620	1620	2160	1620	1620	1620	1620
26,000	2340	1800	1800	1800	2340	2340	2340	1800	1800	1800
28,000	2520	1980	1980	1980	2520	2520	2520	1980	1980	1980
30,000	2700	2160	2160	2160	2700	2700	2700	2160	2160	2160
32,000	3420	2304	2304	2304	2880	2880	2880	2304	2304	2304
34,000	4140	2448	2448	3060	3060	3060	3060	3060	2448	2448
36,000	4860	2592	2592	3240	3240	3240	3240	3240	2592	2592
38,000	5580	2844	2844	3420	3420	3420	3420	3420	2844	2844
40,000	6300	3420	3420	3600	3600	3600	3600	3600	3420	3420
50,000	9900	6300	6300	5850	4500	4500	4500	5850	6300	6300
60,000	13800	9180	10260	8640	7020	5400	7020	8640	10260	9180
70,000	17700	12240	13500	11430	9540	9000	9540	11430	13500	12240
80,000	21600	15360	16800	14400	12600	12600	12600	14400	16800	15360
90,000	25500	18480	20100	17400	16320	16200	16320	17400	20100	18480
100,000	29400	21600	23400	20400	20100	19800	20100	20400	23400	21600
110,000	33600	24720	26700	24210	23880	23700	23880	24210	26700	24720
120,000	37800	27840	30000	28020	27660	27600	27660	28020	30000	27840
130,000	42000	31080	33420	31830	31500	31500	31500	31830	33420	31080
140,000	46200	34440	36960	35640	35400	35400	35400	35640	36960	34440
150,000	50400	37800	40500	39600	39300	39300	39300	39600	40500	37800
160,000	54900	41160	44580	43620	43200	43200	43200	43620	44580	41160
170,000	59400	44520	48660	47670	47160	47100	47160	47670	48660	44520
180,000	63900	47880	52740	51780	51240	51000	51240	51780	52740	47880
190,000	68400	51240	56880	55890	55320	54900	55320	55890	56880	51240
200,000	72900	54600	61200	60000	59400	58800	59400	60000	61200	54600

APPENDIX H-1
RECOMMENDATION 1:

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)
THE 1994 TAXATION LEGISLATION ADJUSTED FOR TRANSFERABLE ALLOWANCES
R2 225 AND R900 TRANSDIFFERENCES IN TAX PAYABLE

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
	R	R	R	R	R	R	R	R	R
1,000	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0
8,000	0	0	0	0	0	0	0	0	0
9,000	0	0	0	0	0	0	0	0	0
10,000	0	0	0	0	0	0	0	0	0
11,000	-60	-60	-60	-60	-60	-60	-60	-60	-60
12,000	-270	-270	-270	-270	-270	-270	-270	-270	-270
13,000	-480	-480	-480	-480	-480	-480	-480	-480	-480
14,000	-690	-690	-690	-690	-690	-690	-690	-690	-690
15,000	-900	-900	-900	-900	-900	-900	-900	-900	-900
16,000	-1140	-1140	-1140	-1140	-1140	-1140	-1140	-1140	-1140
17,000	-1380	-1380	-1380	-1380	-1380	-1380	-1380	-1371	-1175
18,000	-1445	-1547	-1575	-1575	-1565	-1531	-1477	-1409	-1175
19,000	-1485	-1599	-1625	-1625	-1620	-1573	-1516	-1441	-1175
20,000	-1525	-1645	-1675	-1675	-1675	-1615	-1555	-1455	-1175
22,000	-1665	-1817	-1851	-1855	-1835	-1779	-1701	-1563	-1175
24,000	-1805	-1989	-2017	-2035	-1995	-1943	-1817	-1671	-1175
26,000	-1945	-2149	-2183	-2201	-2155	-2085	-1933	-1745	-1175
28,000	-2085	-2297	-2349	-2353	-2315	-2205	-2049	-1785	-1175
30,000	-2225	-2445	-2505	-2505	-2475	-2325	-2125	-1828	-1175
32,000	-2385	-2753	-2817	-2817	-2755	-2605	-2345	-2025	-1175
34,000	-2545	-3061	-3125	-3125	-3035	-2869	-2563	-2225	-1175
36,000	-2705	-3369	-3425	-3425	-3315	-3101	-2777	-2425	-1175
38,000	-2865	-3649	-3725	-3719	-3595	-3331	-2991	-2593	-1175
40,000	-3025	-3845	-4025	-3995	-3875	-3555	-3205	-2665	-1175
50,000	-3525	-5325	-5675	-5875	-5525	-5175	-4375	-3525	-1475
60,000	-3665	-6265	-7075	-7315	-7315	-6415	-5455	-4345	-1715
70,000	-3765	-6965	-8095	-8655	-8415	-7675	-6485	-5105	-2015
80,000	-3865	-7495	-8735	-9515	-9515	-8715	-7375	-5815	-2315
90,000	-3865	-7955	-9295	-10015	-10115	-9535	-8245	-6515	-2615
100,000	-3865	-8415	-9815	-10415	-10715	-10315	-9115	-7215	-2915
110,000	-3865	-8715	-10095	-10675	-10965	-10775	-9775	-7895	-3215
120,000	-3865	-9015	-10335	-10935	-11215	-11235	-10435	-8575	-3515
130,000	-3865	-9315	-10545	-11155	-11415	-11595	-11095	-9255	-3815
140,000	-3865	-9615	-10715	-11295	-11615	-11855	-11595	-9935	-4115
150,000	-3865	-9915	-10865	-11415	-11815	-12115	-12015	-10615	-4415
160,000	-3865	-10055	-11015	-11535	-12015	-12335	-12435	-11155	-4715
170,000	-3865	-10195	-11145	-11655	-12165	-12555	-12805	-11695	-5015
180,000	-3865	-10335	-11235	-11775	-12315	-12775	-13075	-12235	-5315
190,000	-3865	-10475	-11325	-11895	-12465	-12995	-13345	-12775	-5615
200,000	-3865	-10615	-11415	-12015	-12615	-13215	-13615	-13315	-5915

APPENDIX H-2

CALCULATIONS FOR RECOMMENDATION TWO

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
94/95	R	R	R	R	R	R	R	R	R
1,000	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0
8,000	0	0	0	0	0	0	0	0	0
9,000	0	0	0	0	0	0	0	0	0
10,000	0	0	0	0	0	0	0	0	0
11,000	-60	-60	-60	-60	-60	-60	-60	-60	-60
12,000	-270	-270	-270	-270	-270	-270	-270	-270	-270
13,000	-415	-385	-385	-385	-385	-385	-385	-480	-415
14,000	-445	-405	-405	-405	-405	-405	-405	-588	-445
15,000	-425	-425	-425	-425	-425	-425	-900	-630	-425
16,000	-465	-465	-465	-465	-465	-465	-1038	-702	-465
17,000	-505	-505	-505	-505	-505	-1380	-1131	-774	-505
18,000	-545	-545	-545	-545	-545	-1602	-1224	-846	-545
19,000	-585	-585	-585	-585	-585	-1716	-1317	-912	-585
20,000	-625	-625	-625	-625	-625	-1830	-1410	-960	-625
22,000	-765	-765	-765	-765	-2540	-2138	-1664	-1136	-765
24,000	-905	-905	-905	-905	-2680	-2446	-1888	-1312	-905
26,000	-1045	-1045	-1045	-2736	-2820	-2736	-2112	-1456	-1045
28,000	-1185	-1185	-1185	-2906	-2960	-2906	-2336	-1568	-1185
30,000	-1325	-1325	-1325	-3010	-3100	-3010	-2520	-1680	-1325
32,000	-1485	-1485	-1485	-3274	-3340	-3274	-2848	-1952	-1485
34,000	-1645	-1645	-3176	-3522	-3580	-3522	-3176	-2224	-1645
36,000	-1805	-1805	-3486	-3738	-3820	-3738	-3486	-2496	-1805
38,000	-1965	-1965	-3688	-3948	-4060	-3948	-3688	-2736	-1965
40,000	-2125	-2125	-3890	-4140	-4300	-4140	-3890	-2880	-2125
50,000	-2625	-2625	-5000	-5600	-5600	-5600	-5000	-4100	-2625
60,000	-2765	-4790	-5900	-6560	-7040	-6560	-5900	-4790	-2765
70,000	-2865	-5330	-6570	-7480	-7740	-7480	-6570	-5330	-2865
80,000	-2965	-5740	-7100	-8040	-8440	-8040	-7100	-5740	-2965
90,000	-2965	-6120	-7550	-8400	-8640	-8400	-7550	-6120	-2965
100,000	-2965	-6500	-8000	-8700	-8840	-8700	-8000	-6500	-2965
110,000	-2965	-6800	-8210	-8780	-8940	-8780	-8210	-6800	-2965
120,000	-2965	-7100	-8420	-8860	-8960	-8860	-8420	-7100	-2965
130,000	-2965	-7400	-8630	-8920	-8960	-8920	-8630	-7400	-2965
140,000	-2965	-7700	-8740	-8960	-8960	-8960	-8740	-7700	-2965
150,000	-2965	-8000	-8800	-8960	-8960	-8960	-8800	-8000	-2965
160,000	-2965	-8140	-8860	-8960	-8960	-8960	-8860	-8140	-2965
170,000	-2965	-8280	-8910	-8960	-8960	-8960	-8910	-8280	-2965
180,000	-2965	-8420	-8940	-8960	-8960	-8960	-8940	-8420	-2965
190,000	-2965	-8560	-8960	-8960	-8960	-8960	-8960	-8560	-2965
200,000	-2965	-8700	-8960	-8960	-8960	-8960	-8960	-8700	-2965

APPENDIX H-3
RECOMMENDATION 3:

DIFFERENCES IN TAX PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE
(DIFFERENT INCOME COMBINATIONS) BASED ON THE KATZ COMMISSION PROPOSALS WITH DEPENDANT ALLOWANCE

INCOME	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
	R	R	R	R	R	R	R	R	R
1,000	-90	-90	-90	-90	-90	-90	-90	-90	-90
2,000	-180	-180	-180	-180	-180	-180	-180	-180	-180
3,000	-270	-270	-270	-270	-270	-270	-270	-270	-270
4,000	-360	-360	-360	-360	-360	-360	-360	-360	-360
5,000	-450	-450	-450	-450	-450	-450	-450	-450	-450
6,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
7,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
8,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
9,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
10,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
11,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
12,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
13,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
14,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
15,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
16,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
17,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
18,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
19,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
20,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
22,000	-540	-540	-540	-540	0	-540	-540	-540	-540
24,000	-540	-540	-540	-540	0	-540	-540	-540	-540
26,000	-540	-540	-540	0	0	0	-540	-540	-540
28,000	-540	-540	-540	0	0	0	-540	-540	-540
30,000	-540	-540	-540	0	0	0	-540	-540	-540
32,000	-1080	-1080	-1080	-540	-540	-540	-1080	-1080	-1080
34,000	-1620	-1620	-1080	-1080	-1080	-1080	-1080	-1620	-1620
36,000	-2160	-2160	-1620	-1620	-1620	-1620	-1620	-2160	-2160
38,000	-2160	-2160	-2160	-2160	-2160	-2160	-2160	-2160	-2160
40,000	-2160	-2160	-2700	-2700	-2700	-2700	-2700	-2160	-2160
50,000	-2160	-2160	-4050	-5400	-5400	-5400	-4050	-2160	-2160
60,000	-2340	-3540	-5160	-6780	-8400	-6780	-5160	-3540	-2340
70,000	-2340	-4200	-6270	-8160	-8700	-8160	-6270	-4200	-2340
80,000	-2340	-4800	-7200	-9000	-9000	-9000	-7200	-4800	-2340
90,000	-2340	-5400	-8100	-9180	-9300	-9180	-8100	-5400	-2340
100,000	-2340	-6000	-9000	-9300	-9600	-9300	-9000	-6000	-2340
110,000	-2520	-6900	-9390	-9720	-9900	-9720	-9390	-6900	-2520
120,000	-2520	-7800	-9780	-10140	-10200	-10140	-9780	-7800	-2520
130,000	-2520	-8580	-10170	-10500	-10500	-10500	-10170	-8580	-2520
140,000	-2520	-9240	-10560	-10800	-10800	-10800	-10560	-9240	-2520
150,000	-2520	-9900	-10800	-11100	-11100	-11100	-10800	-9900	-2520
160,000	-2820	-10320	-11280	-11700	-11700	-11700	-11280	-10320	-2820
170,000	-3120	-10740	-11730	-12240	-12300	-12240	-11730	-10740	-3120
180,000	-3420	-11160	-12120	-12660	-12900	-12660	-12120	-11160	-3420
190,000	-3720	-11520	-12510	-13080	-13500	-13080	-12510	-11520	-3720
200,000	-4020	-11700	-12900	-13500	-14100	-13500	-12900	-11700	-4020

RECOMMENDATION 4:

DIFFERENCES IN TAX PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE
(DIFFERENT INCOME COMBINATIONS) BASED ON THE KATZ COMMISSION'S PROPOSED RATES AND DEPENDANT REBATE

INCOME	1994/1995	100:0	70:30	60:40	50:50	40:60	30:70	20:80	0:100
1994/1995 UNMARRIED	R	R	R	R	R	R	R	R	R
1,000	90	-90	0	0	0	0	0	0	-90
2,000	180	-180	0	0	0	0	0	0	-180
3,000	270	-270	0	0	0	0	0	0	-270
4,000	360	-360	0	0	0	0	0	0	-360
5,000	450	-450	0	0	0	0	0	0	-450
6,000	540	-540	0	0	0	0	0	0	-540
7,000	630	-630	0	0	0	0	0	0	-630
8,000	720	-720	0	0	0	0	0	0	-720
9,000	810	-810	0	0	0	0	0	0	-810
10,000	900	-900	0	0	0	0	0	0	-900
11,000	990	-990	0	0	0	0	0	0	-990
12,000	1080	-1080	0	0	0	0	0	0	-1080
13,000	1170	-1170	0	0	0	0	0	0	-1170
14,000	1260	-1260	0	0	0	0	0	0	-1260
15,000	1350	-1350	0	0	0	0	0	0	-1350
16,000	1440	-1440	0	0	0	0	0	0	-1440
17,000	1530	-1530	0	0	0	0	0	0	-1530
18,000	1620	-1620	0	0	0	0	0	0	-1620
19,000	1710	-1710	0	0	0	0	0	0	-1710
20,000	1800	-1800	0	0	0	0	0	0	-1800
22,000	1980	-1980	0	0	0	0	0	0	-1980
24,000	2160	-2160	0	0	0	0	0	0	-2160
26,000	2340	-2340	0	0	0	0	0	0	-2340
28,000	2520	-2500	0	0	0	0	0	0	-2500
30,000	2700	-2500	0	0	0	0	0	0	-2500
32,000	3420	-2500	-540	-540	-540	-540	-540	-540	-2500
34,000	4140	-2500	-1080	-1080	-1080	-1080	-1080	-1080	-2500
36,000	4860	-2500	-1620	-1620	-1620	-1620	-1620	-1620	-2500
38,000	5580	-2500	-2160	-2160	-2160	-2160	-2160	-2052	-2500
40,000	6300	-2500	-2700	-2700	-2700	-2700	-2700	-2160	-2500
50,000	9900	-2500	-4050	-5400	-5400	-5400	-4050	-2700	-2500
60,000	13800	-2500	-5160	-6780	-8400	-6780	-5160	-3540	-2500
70,000	17700	-2500	-6270	-8160	-8700	-8160	-6270	-4200	-2500
80,000	21600	-2500	-7200	-9000	-9000	-9000	-7200	-4800	-2500
90,000	25500	-2500	-8100	-9180	-9300	-9180	-8100	-5400	-2500
100,000	29400	-2500	-9000	-9300	-9600	-9300	-9000	-6000	-2500
110,000	33600	-2500	-9390	-9720	-9900	-9720	-9390	-6900	-2500
120,000	37800	-2500	-9780	-10140	-10200	-10140	-9780	-7800	-2500
130,000	42000	-2500	-10170	-10500	-10500	-10500	-10170	-8580	-2500
140,000	46200	-2500	-10560	-10800	-10800	-10800	-10560	-9240	-2500
150,000	50400	-2500	-10800	-11100	-11100	-11100	-10800	-9900	-2500
160,000	54900	-2800	-11280	-11700	-11700	-11700	-11280	-10320	-2800
170,000	59400	-3100	-11730	-12240	-12300	-12240	-11730	-10740	-3100
180,000	63900	-3400	-12120	-12660	-12900	-12660	-12120	-11160	-3400
190,000	68400	-3700	-12510	-13080					

APPENDIX H-5

RECOMMENDATION 5:

DIFFERENCES IN TAX PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE

(DIFFERENT INCOME COMBINATIONS) BASED ON THE KATZ COMMISSION PROPOSALS WITH 20% DEPENDANT AL

INCOME

	100:0	80:20	70:30	60:40	50:50	40:60	30:70	20:80	0:100
	R	R	R	R	R	R	R	R	R
1,000	-90	-90	-90	-90	-90	-90	-90	-90	-90
2,000	-180	-180	-180	-180	-180	-180	-180	-180	-180
3,000	-270	-270	-270	-270	-270	-270	-270	-270	-270
4,000	-360	-360	-360	-360	-360	-360	-360	-360	-360
5,000	-450	-450	-450	-450	-450	-450	-450	-450	-450
6,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
7,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
8,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
9,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
10,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
11,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
12,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
13,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
14,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
15,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
16,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
17,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
18,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
19,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
20,000	-540	-540	-540	-540	-540	-540	-540	-540	-540
22,000	-540	-540	-540	-540	0	-540	-540	-540	-540
24,000	-540	-540	-540	-540	0	-540	-540	-540	-540
26,000	-540	-540	-540	0	0	0	-540	-540	-540
28,000	-540	-540	-540	0	0	0	-540	-540	-540
30,000	-540	-540	-540	0	0	0	-540	-540	-540
32,000	-1116	-1116	-1116	-540	-540	-540	-1116	-1116	-1116
34,000	-1692	-1692	-1080	-1080	-1080	-1080	-1080	-1692	-1692
36,000	-2268	-2268	-1620	-1620	-1620	-1620	-1620	-2268	-2268
38,000	-2736	-2736	-2160	-2160	-2160	-2160	-2160	-2736	-2736
40,000	-2880	-2880	-2700	-2700	-2700	-2700	-2700	-2880	-2880
50,000	-3600	-3600	-4050	-5400	-5400	-5400	-4050	-3600	-3600
60,000	-4620	-3540	-5160	-6780	-8400	-6780	-5160	-3540	-4620
70,000	-5460	-4200	-6270	-8160	-8700	-8160	-6270	-4200	-5460
80,000	-6240	-4800	-7200	-9000	-9000	-9000	-7200	-4800	-6240
90,000	-7020	-5400	-8100	-9180	-9300	-9180	-8100	-5400	-7020
100,000	-7800	-6000	-9000	-9300	-9600	-9300	-9000	-6000	-7800
110,000	-8880	-6900	-9390	-9720	-9900	-9720	-9390	-6900	-8880
120,000	-9960	-7800	-9780	-10140	-10200	-10140	-9780	-7800	-9960
130,000	-10920	-8580	-10170	-10500	-10500	-10500	-10170	-8580	-10920
140,000	-11760	-9240	-10560	-10800	-10800	-10800	-10560	-9240	-11760
150,000	-12600	-9900	-10800	-11100	-11100	-11100	-10800	-9900	-12600
160,000	-13740	-10320	-11280	-11700	-11700	-11700	-11280	-10320	-13740
170,000	-14880	-10740	-11730	-12240	-12300	-12240	-11730	-10740	-14880
180,000	-16020	-11160	-12120	-12660	-12900	-12660	-12120	-11160	-16020
190,000	-17160	-11520	-12510	-13080	-13500	-13080	-12510	-11520	-17160
200,000	-18300	-11700	-12900	-13500	-14100	-13500	-12900	-11700	-18300

APPENDIX I-1
 COMPARISON OF TAXES PAYABLE 1993/94 AND RECOMMENDATION ONE
 DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)
 1993/94 TAX LEGISLATION WITH TRANSFERABLE "ALLOWANCES"

	1993/94	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM
INCOME	100:0	100:0	80:20	80:20	70:30	70:30	60:40	60:40	50:50	50:50	40:60	40:60	30:70	30:70	20:80	20:80	0:100	0:100	
	UNMARRIED	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	
1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
3,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
4,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
5,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
6,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	140	0	
7,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	64	0	330	0	
8,000	0	0	0	0	0	0	0	0	0	0	0	0	0	64	0	216	0	520	
9,000	0	0	0	0	0	0	0	0	0	0	0	26	0	167	0	368	0	710	
10,000	0	0	0	0	0	0	0	0	0	0	0	140	0	330	0	520	0	900	
11,000	60	0	0	0	0	0	0	0	0	45	0	254	0	483	0	872	0	1110	
12,000	270	0	0	0	0	0	0	0	0	140	0	368	0	596	0	824	0	1320	
13,000	480	65	0	0	0	0	0	0	0	235	0	482	0	729	0	964	0	1530	
14,000	690	245	0	0	0	0	0	64	0	330	0	596	0	882	0	1152	0	1740	
15,000	900	475	0	0	0	0	0	140	0	425	0	710	0	1006	0	1320	0	1950	
16,000	1140	675	0	57	0	0	0	216	0	520	0	624	0	1152	0	1488	0	2190	
17,000	1380	875	0	209	0	0	0	292	0	615	0	942	0	1299	0	1656	9	2430	
18,000	1620	1075	175	361	73	45	45	388	45	710	55	1068	89	1448	143	1824	211	2670	
19,000	1860	1275	375	515	261	235	235	444	235	805	240	1194	287	1593	344	1998	419	2910	
20,000	2100	1475	575	675	455	425	425	520	425	900	425	1320	485	1740	545	2190	645	3150	
22,000	2660	1895	995	995	843	809	809	605	805	1110	825	1572	881	2046	959	2574	1097	3710	
24,000	3220	2315	1415	1315	1231	1203	1203	1165	1165	1320	1225	1824	1277	2362	1403	2958	1549	4270	
26,000	3780	2735	1835	1643	1631	1597	1597	1579	1579	1625	1625	2094	1695	2718	1847	3374	2035	4830	
28,000	4340	3155	2255	2043	2043	1991	1991	1987	1987	2025	2025	2382	2135	3054	2291	3822	2555	5390	
30,000	4900	3575	2675	2455	2455	2395	2395	2395	2395	2425	2425	2670	2575	3430	2775	4270	3075	5950	
32,000	5620	4135	3235	2867	2867	2803	2803	2803	2803	2865	2865	3015	3015	3822	3275	4718	3595	6670	
34,000	6340	4695	3795	3279	3279	3215	3215	3215	3215	3305	3305	3471	3471	4214	3777	5168	4115	7390	
36,000	7060	5255	4355	3691	3691	3635	3635	3635	3635	3745	3745	3959	3959	4606	4289	5814	4635	8110	
38,000	7780	5815	4915	4131	4131	4055	4055	4061	4061	4185	4185	4449	4449	4998	4789	6094	5167	8830	
40,000	8500	6375	5475	4655	4655	4475	4475	4505	4505	4625	4625	4945	4945	5390	5295	6670	5835	9550	
50,000	12600	9975	9075	7275	7275	6925	6925	6725	6725	7075	7075	7425	7425	8225	8225	9550	9075	13350	
60,000	16640	14075	13175	10575	10575	9765	9765	9525	9525	9525	9525	10425	10425	11385	11385	12590	12495	17350	
70,000	21140	18275	17375	14175	14175	13045	13045	12485	12485	12725	12725	13465	13465	14655	14655	16035	16035	21350	
80,000	25440	22475	21575	17945	17945	16705	16705	15925	15925	15925	15925	16725	16725	18065	18065	19625	19625	25350	
90,000	29740	26775	25875	21765	21765	20445	20445	19725	19725	19825	19825	20205	20205	21495	21495	23225	23225	29350	
100,000	34040	31075	30175	25625	25625	24225	24225	23625	23625	23325	23325	23725	23725	24925	24925	26825	26825	33350	
110,000	38340	35375	34475	29625	29625	28245	28245	27665	27665	27375	27375	27585	27585	28585	28585	30445	30445	37350	
120,000	42640	39675	38775	33625	33625	32305	32305	31705	31705	31425	31425	31405	31405	32205	32205	34065	34065	41350	
130,000	46940	43975	43075	37625	37625	36395	36395	35785	35785	35525	35525	35345	35345	35845	35845	37685	37685	45350	
140,000	51240	48275	47375	41625	41625	40525	40525	39945	39945	39625	39625	39385	39385	39645	39645	41305	41305	49350	
150,000	55540	52575	51675	45625	45625	44675	44675	44125	44125	43725	43725	43425	43425	43525	43525	44925	44925	53350	
160,000	59840	56875	55975	49785	49785	48825	48825	48305	48305	47825	47825	47505	47505	47405	47405	48685	48685	57350	
170,000	64140	61175	60275	53945	53945	52995	52995	52485	52485	51975	51975	51585	51585	51335	51335	52445	52445	61350	
180,000	68440	65475	64575	58105	58105	57205	57205	56665	56665	56125	56125	55665	55665	55365	55365	56205	56205	65350	
190,000	72740	69775	68875	62265	62265	61415	61415	60845	60845	60275	60275	59745	59745	59395	59395	59965	59965	69350	
200,000	77040	74075	73175	66425	66425	65625	65625	65025	65025	64425	64425	63825	63825	63425	63425	63725	63725	73350	

APPENDIX I-2
 COMPARISON OF TAXES PAYABLE 1993/94 AND RECOMMENDATION TWO
 DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)
 1993/94 TAX LEGISLATION MARRIED PERSON RATES ONLY FOR BREADWINNERS

INCOME	1993/94 100:0	RECOMM 100:0	1993/94 80:20	RECOMM 80:20	1993/94 70:30	RECOMM 70:30	1993/94 60:40	RECOMM 60:40	1993/94 50:50	RECOMM 50:50	1993/94 40:60	RECOMM 40:60	1993/94 30:70	RECOMM 30:70	1993/94 20:80	RECOMM 20:80	1993/94 0:100
	UNMARRIED TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX
1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	64	0	0
8,000	0	0	0	0	0	0	0	0	0	0	0	0	64	0	216	0	0
9,000	0	0	0	0	0	0	0	0	0	0	26	0	197	0	368	0	0
10,000	0	0	0	0	0	0	0	0	0	0	140	0	330	0	520	0	0
11,000	60	0	0	0	0	0	0	0	45	0	254	0	463	0	672	0	0
12,000	270	0	0	0	0	0	0	0	140	0	368	0	596	0	824	0	0
13,000	480	65	65	0	95	0	95	0	235	95	482	95	729	95	984	0	0
14,000	690	245	245	0	285	0	285	64	285	330	285	596	862	285	1152	102	0
15,000	900	475	475	0	475	0	475	140	475	425	475	710	1005	0	1320	270	0
16,000	1140	675	675	57	675	0	675	216	675	520	675	824	1152	102	1488	438	0
17,000	1380	875	875	209	875	0	875	292	875	615	875	942	0	1299	249	1656	0
18,000	1620	1075	1075	361	1075	45	1075	368	1075	710	1075	1068	18	1446	396	1824	0
19,000	1860	1275	1275	515	1275	235	1275	444	1275	805	1275	1194	144	1593	543	1998	0
20,000	2100	1475	1475	675	1475	425	1475	520	1475	900	1475	1320	270	1740	690	2190	0
22,000	2660	1895	1895	995	1895	809	1895	805	1895	1110	120	1572	522	2046	996	2574	0
24,000	3220	2315	2315	1315	2315	1203	2315	1185	2315	1320	540	1824	774	2382	1332	2958	0
26,000	3780	2735	2735	1643	2735	1597	2735	1579	1044	1625	960	2094	1044	2718	1668	3374	0
28,000	4340	3155	3155	2043	3155	1991	3155	1987	1434	2025	1380	2382	1434	3054	2004	3822	0
30,000	4900	3575	3575	2455	3575	2395	3575	2395	1890	2425	1800	2670	1890	3430	2380	4270	0
32,000	5620	4135	4135	2867	4135	2803	4135	2803	2346	2865	2280	3015	2346	3822	2772	4718	0
34,000	6340	4695	4695	3279	4695	3215	3164	3215	2818	3305	2760	3471	2818	4214	3164	5166	0
36,000	7060	5255	5255	3691	5255	3635	3574	3635	3322	3745	3240	3959	3322	4606	3574	5614	0
38,000	7780	5815	5815	4131	5815	4055	4092	4061	3832	4185	3720	4449	3832	4998	4092	6094	0
40,000	8500	6375	6375	4655	6375	4475	4505	4360	4625	4200	4945	4360	5390	4610	6670	5620	0
50,000	12600	9975	9975	7275	9975	6925	7600	6725	7000	7075	7000	7425	7000	8225	7600	9550	0
60,000	16840	14075	14075	10575	12050	9765	10940	9525	10280	9525	9800	10425	10280	11385	11385	12590	0
70,000	21140	18275	18275	14175	15810	13045	14570	12485	13660	12725	13400	13465	13660	14655	14655	16035	0
80,000	25440	22475	22475	17945	19700	16705	18340	15925	17400	15925	17000	16725	17400	18065	18065	19625	0
90,000	29740	26775	26775	21785	23620	20445	22190	19725	21340	19625	21100	20205	21340	21495	21495	23225	0
100,000	34040	31075	31075	25625	27540	24225	26040	23625	25340	23325	25200	23725	25340	24925	24925	26825	0
110,000	38340	35375	35375	29625	31540	28245	30130	27665	29560	27375	29400	27565	29560	28565	28565	30445	0
120,000	42640	39675	39675	33625	35540	32305	34220	31705	33780	31425	33680	31405	33780	32205	32205	34065	0
130,000	46940	43975	43975	37625	39540	36395	38310	35785	38020	35525	37980	35345	38020	35845	35845	37685	0
140,000	51240	48275	48275	41625	43540	40525	42500	39945	42280	39625	42280	39385	42280	39645	39645	41305	0
150,000	55540	52575	52575	45625	47540	44675	46740	44125	46580	43725	46580	43425	46580	43525	43525	44925	0
160,000	59840	56875	56875	49785	51700	48825	50980	48305	50880	47825	50880	47505	50880	47405	47405	48685	0
170,000	64140	61175	61175	53945	55860	52995	55230	52485	55180	51975	55180	51585	55180	51335	51335	52445	0
180,000	68440	65475	65475	58105	60020	57205	59500	56665	59480	56125	59480	55665	59480	55365	55365	56205	0
190,000	72740	69775	69775	62265	64180	61415	63780	60845	63780	60275	63780	59745	63780	59395	59395	59965	0
200,000	77040	74075	74075	66425	68340	65625	68080	65025	68080	64425	68080	63825	68080	63425	63425	63725	0

APPENDIX I-3

COMPARISON OF TAXES PAYABLE 1993/94 AND RECOMMENDATION THREE (VERSION TWO)

DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)

TAX RATES PROPOSED BY KATZ COMMISSION AND DEPENDANT ALLOWANCE FOR BREADWINNERS

		ALLOWANCE ON BREADWINNERS																		
INCOME	1993/94	REC.THREE	1993/94	RECOMME	1993/94	RECOMME	1993/94	RECOMME	1993/94	RECOMME	1993/94	RECOMME	1993/94	RECOMME	1993/94	RECOMME	1993/94	RECOMME	1993/94	RECOMME
	100:0	100:0	60:20	60:20	70:30	70:30	60:40	60:40	50:50	50:50	40:60	40:60	30:70	30:70	20:80	20:80	0:100	0:100		
	UNMARRIED	UNMARRIED	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX
1,000	0	90	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,000	0	180	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,000	0	270	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,000	0	360	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,000	0	450	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6,000	0	540	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	140	0
7,000	0	630	0	90	0	90	0	90	0	90	0	90	0	90	0	90	64	90	330	90
8,000	0	720	0	180	0	180	0	180	0	180	0	180	0	180	64	180	216	180	520	180
9,000	0	810	0	270	0	270	0	270	0	270	0	270	26	270	197	270	388	270	710	270
10,000	0	900	0	360	0	360	0	360	0	360	0	360	140	360	330	360	520	360	900	360
11,000	60	990	0	450	0	450	0	450	45	450	45	450	254	450	463	450	872	450	1110	450
12,000	270	1080	0	540	0	540	0	540	140	540	140	540	368	540	596	540	824	540	1320	540
13,000	480	1170	65	630	0	630	0	630	235	630	482	630	729	630	729	630	984	630	1530	630
14,000	690	1260	245	720	0	720	0	720	64	720	330	720	596	720	682	720	1152	720	1740	720
15,000	900	1350	475	810	0	810	0	810	140	810	425	810	710	810	1005	810	1320	810	1950	810
16,000	1140	1440	675	900	57	900	0	900	218	900	520	900	824	900	1152	900	1488	900	2190	900
17,000	1380	1530	875	990	209	990	0	990	292	990	615	990	942	990	1299	990	1858	990	2430	990
18,000	1620	1620	1075	1080	361	1080	45	1080	368	1080	710	1080	1068	1080	1446	1080	1824	1080	2670	1080
19,000	1860	1710	1275	1170	515	1170	235	1170	444	1170	805	1170	1194	1170	1593	1170	1998	1170	2910	1170
20,000	2100	1800	1475	1260	675	1260	425	1260	520	1260	900	1260	1320	1260	1740	1260	2190	1260	3150	1260
22,000	2660	1980	1895	1440	995	1440	809	1440	805	1440	1110	1980	1572	1440	2046	1440	2574	1440	3710	1440
24,000	3220	2160	2315	1620	1315	1620	1203	1620	1185	1620	1320	2160	1824	1620	2382	1620	2958	1620	4270	1620
26,000	3780	2340	2735	1800	1643	1800	1597	1800	1579	2340	1625	2340	2094	2340	2718	1800	3374	1800	4830	1800
28,000	4340	2520	3155	1980	2043	1980	1991	1980	1987	2520	2025	2520	2382	2520	3054	1980	3822	1980	5390	1980
30,000	4900	2700	3575	2160	2455	2160	2395	2160	2395	2700	2425	2700	2670	2700	3430	2160	4270	2160	5950	2160
32,000	5620	3420	4135	2340	2867	2340	2803	2340	2803	2880	2865	2880	3015	2880	3822	2340	4718	2340	6670	2340
34,000	6340	4140	4695	2520	3279	2520	3215	3080	3215	3080	3305	3080	3471	3080	4214	3080	5166	2520	7390	2520
36,000	7060	4860	5255	2700	3691	2700	3635	3240	3635	3240	3745	3240	3959	3240	4806	3240	5814	2700	8110	2700
38,000	7780	5580	5815	3420	4131	3420	4055	3420	4061	3420	4185	3420	4449	3420	4998	3420	6094	3420	8630	3420
40,000	8500	6300	6375	4140	4655	4140	4475	3800	4505	3800	4625	3800	4945	3800	5390	3800	6870	4140	9550	4140
50,000	12800	9900	9975	7740	7275	7740	6925	5850	6725	4500	7075	4500	7425	4500	8225	5850	9550	7740	13350	7740
60,000	18840	13800	14075	11460	10575	10280	9765	8640	9525	7020	9525	5400	10425	7020	11385	8640	12590	10280	17350	11460
70,000	21140	17700	18275	15360	14175	13500	13045	11430	12485	9540	12725	9000	13485	9540	14655	11430	16035	13500	21350	15360
80,000	25440	21600	22475	19260	17945	16800	16705	14400	15925	12600	15925	12600	16725	12600	18065	14400	19625	16800	25350	19260
90,000	29740	25500	26775	23160	21785	20100	20445	17400	19725	16320	19625	16200	20205	16320	21495	17400	23225	20100	29350	23160
100,000	34040	29400	31075	27060	25625	23400	24225	20400	23625	20100	23325	19800	23725	20100	24925	20400	26825	23400	33350	27060
110,000	38340	33600	35375	31080	29625	26700	28245	24210	27665	23680	27375	23700	27565	23680	28565	24210	30445	26700	37350	31080
120,000	42640	37800	39675	35280	33625	30000	32305	28020	31705	27660	31425	27600	31405	27660	32205	28020	34065	30000	41350	35280
130,000	46940	42000	43975	39480	37625	33420	38395	31830	35785	31500	35525	31500	35345	31500	35845	31830	37685	33420	45350	39480
140,000	51240	46200	48275	43680	41625	36980	40525	35640	39945	35400	39625	35400	39385	35400	39645	35840	41305	36980	49350	43680
150,000	55540	50400	52575	47880	45625	40500	44875	39600	44125	39300	43725	39300	43425	39300	43525	39600	44925	40500	53350	47880
160,000	59840	54900	56875	52080	49765	44580	48825	43620	48305	43200	47825	43200	47505	43200	47405	43620	48685	44580	57350	52080
170,000	64140	59400	61175	56280	53945	48660	52995	47670	52465	47180	51975	47100	51585	47180	51335	47670	52445	48660	61350	56280
180,000	68440	63900	65475	60480	58105	52740	57205	51780	56665	51240	56125	51000	55665	51240	55365	51780	56205	52740	65350	60480
190,000	72740	68400	69775	64680	62265	56880	61415	55890	60645	55320	60275	54900	59745	55320	59385	55690	59965	56880	69350	64680
200,000	77040	72900	74075	68880	66425	61200	65625	60000	65025	59400	64425	58800	63825	59400	63425	60000	63725	61200	73350	68880

APPENDIX 1-4
COMPARISON OF TAXES PAYABLE 1993/94 AND RECOMMENDATION FOUR (VERSION TWO)
DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)
TAX RATES PROPOSED BY KATZ COMMISSION AND DEPENDANT REBATE FOR BREADWINNERS

INCOME	1993/94	REC.FOUR	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM	1993/94	RECOMM
	100:0	100:0	80:20	80:20	70:30	70:30	60:40	60:40	50:50	50:50	40:60	40:60	30:70	30:70	20:80	20:80	10:100	0:100		
	UNMARRIED	UNMARRIED	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX	TAX
1,000	0	90	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,000	0	180	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,000	0	270	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,000	0	360	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,000	0	450	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6,000	0	540	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	140	0	0
7,000	0	630	0	0	0	0	0	0	0	0	0	0	0	0	0	64	0	330	0	0
8,000	0	720	0	0	0	0	0	0	0	0	0	0	0	64	0	216	0	520	0	0
9,000	0	810	0	0	0	0	0	0	0	0	26	0	197	0	368	0	710	0	0	0
10,000	0	900	0	0	0	0	0	0	0	0	140	0	330	0	520	0	900	0	0	0
11,000	60	990	0	0	0	0	0	0	45	0	254	0	463	0	672	0	1110	0	0	0
12,000	270	1080	0	0	0	0	0	0	140	0	368	0	596	0	824	0	1320	0	0	0
13,000	480	1170	65	0	0	0	0	0	235	0	482	0	729	0	984	0	1530	0	0	0
14,000	690	1260	245	0	0	0	0	64	330	0	596	0	862	0	1152	0	1740	0	0	0
15,000	900	1350	475	0	0	0	0	140	425	0	710	0	1005	0	1320	0	1950	0	0	0
16,000	1140	1440	675	0	57	0	0	216	520	0	824	0	1152	0	1488	0	2190	0	0	0
17,000	1380	1530	875	0	209	0	0	292	615	0	942	0	1299	0	1656	0	2430	0	0	0
18,000	1620	1620	1075	0	361	0	45	368	710	0	1068	0	1446	0	1824	0	2670	0	0	0
19,000	1860	1710	1275	0	515	0	235	444	805	0	1194	0	1593	0	1998	0	2910	0	0	0
20,000	2100	1800	1475	0	675	0	425	520	900	0	1320	0	1740	0	2190	0	3150	0	0	0
22,000	2660	1980	1895	0	995	0	809	805	1110	1980	1572	0	2046	0	2574	0	3710	0	0	0
24,000	3220	2160	2315	0	1315	0	1203	1185	1320	2160	1824	0	2382	0	2958	0	4270	0	0	0
26,000	3780	2340	2735	0	1643	0	1597	1579	1625	2340	2094	2340	2718	0	3374	0	4830	0	0	0
28,000	4340	2520	3155	20	2043	20	1991	1987	2520	2025	2520	2382	2520	3054	20	3822	20	5390	20	0
30,000	4900	2700	3575	200	2455	200	2395	2395	2700	2425	2700	2670	2700	3430	200	4270	200	5950	200	0
32,000	5620	3420	4135	920	2867	920	2803	2803	2880	2865	2880	3015	2880	3822	920	4718	920	6670	920	0
34,000	6340	4140	4695	1640	3279	1640	3215	3060	3215	3060	3305	3060	3471	3060	4214	3060	5168	1640	7390	1640
36,000	7060	4860	5255	2360	3691	2360	3635	3240	3635	3240	3745	3240	3959	3240	4606	3240	5614	2360	8110	2360
38,000	7780	5580	5815	3080	4131	3080	4055	3420	4061	3420	4185	3420	4449	3420	4998	3420	6094	3080	8830	3080
40,000	8500	6300	6375	3800	4655	3800	4475	3600	4505	3600	4625	3600	4945	3600	5390	3600	6670	3800	9550	3800
50,000	12600	9900	9975	7400	7275	7400	6925	5850	6725	4500	7075	4500	7425	4500	8225	5850	9550	7400	13350	7400
60,000	16840	13800	14075	11300	10575	10260	9765	8640	9525	7020	9525	5400	10425	7020	11385	8640	12590	10260	17350	11300
70,000	21140	17700	18275	15200	14175	13500	13045	11430	12485	9540	12725	9000	13485	9540	14655	11430	16035	13500	21350	15200
80,000	25440	21600	22475	19100	17945	16800	16705	14400	15925	12600	15925	12600	16725	12600	18085	14400	19625	16800	25350	19100
90,000	29740	25500	26775	23000	21785	20100	20445	17400	19725	16320	19625	16200	20205	16320	21495	17400	23225	20100	29350	23000
100,000	34040	29400	31075	26900	25625	23400	24225	20400	23625	20100	23325	19800	23725	20100	24925	20400	26825	23400	33350	26900
110,000	38340	33600	35375	31100	29625	26700	28245	24210	27665	23880	27375	23700	27585	23880	28585	24210	30445	26700	37350	31100
120,000	42640	37800	39675	35300	33625	30900	32305	28020	31705	27660	31425	27600	31405	27660	32205	28020	34005	30900	41350	35300
130,000	46940	42000	43975	39500	37625	33420	36335	31830	35785	31500	35525	31500	35345	31500	35845	31830	37685	33420	45350	39500
140,000	51240	46200	48275	43700	41625	36980	40525	35640	39845	35400	39625	35400	39385	35400	39645	35640	41305	36980	49350	43700
150,000	55540	50400	52575	47900	45625	40500	44675	39600	44125	39300	43725	39300	43425	39300	43525	39600	44925	40500	53350	47900
160,000	59840	54900	56875	52100	49785	44580	48825	43620	48305	43200	47825	43200	47505	43200	47405	43620	48685	44580	57350	52100
170,000	64140	59400	61175	56300	53945	48660	52995	47670	52485	47160	51975	47160	51585	47160	51305	47670	52445	48660	61350	56300
180,000	68440	63900	65475	60500	58105	52740	57205	51700	56685	51240	56125	51000	55685	51240	55365	51780	56205	52740	65350	60500
190,000	72740	68400	69775	64700	62205	56880	61415	55890	60845	55320	60275	54900	59745	55320	59395	55890	59985	56880	69350	64700
200,000	77040	72900	74075	68900	66425	61200	65625	60000	65025	59400	64425	58800	63825	59400	63425	60000	63725	61200	73350	68900

APPENDIX I-5
COMPARISON OF TAXES PAYABLE 1993/94 AND RECOMMENDATION FIVE
DIFFERENCES IN TAXES PAYABLE BY UNMARRIED PERSON AND MARRIED COUPLE (DIFFERENT INCOME COMBINATIONS)
TAX RATES PROPOSED BY KATZ COMMISSION AND 20% DEPENDANT REBATE FOR BREADWINNERS

INCOME	1993/94 REC.FIVE		1993/94 RECOMME		1993/94 RECOMME		1993/94 RECOMME		1993/94 RECOMME		1993/94 RECOMME		1993/94 RECOMME		1993/94 RECOMME		1993/94 RECOMME		1993/94 RECOMME	
	100:0	100:0	100:0	100:0	80:20	80:20	70:30	70:30	60:40	60:40	50:50	50:50	40:60	40:60	30:70	30:70	20:80	20:80	0:100	0:100
UNMARRIED		TAX	UNMARRIED		TAX	UNMARRIED		TAX	UNMARRIED		TAX	UNMARRIED		TAX	UNMARRIED		TAX	UNMARRIED		TAX
1,000	0	90	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,000	0	180	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,000	0	270	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,000	0	360	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,000	0	450	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6,000	0	540	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	140	0
7,000	0	630	0	90	0	90	0	90	0	90	0	90	0	90	0	90	64	90	330	90
8,000	0	720	0	180	0	180	0	180	0	180	0	180	0	180	64	180	216	180	520	180
9,000	0	810	0	270	0	270	0	270	0	270	0	270	26	270	197	270	368	270	710	270
10,000	0	900	0	360	0	360	0	360	0	360	0	360	140	360	330	360	520	360	900	360
11,000	60	990	0	450	0	450	0	450	0	450	45	450	254	450	463	450	672	450	1110	450
12,000	270	1080	0	540	0	540	0	540	0	540	140	540	368	540	596	540	824	540	1320	540
13,000	480	1170	65	630	0	630	0	630	0	630	235	630	482	630	729	630	984	630	1530	630
14,000	690	1260	245	720	0	720	0	720	64	720	330	720	596	720	862	720	1152	720	1740	720
15,000	900	1350	475	810	0	810	0	810	140	810	425	810	710	810	1005	810	1320	810	1950	810
16,000	1140	1440	675	900	57	900	0	900	216	900	520	900	824	900	1152	900	1488	900	2190	900
17,000	1380	1530	875	990	209	990	0	990	292	990	615	990	942	990	1299	990	1656	990	2430	990
18,000	1620	1620	1075	1080	361	1080	45	1080	368	1080	710	1080	1068	1080	1446	1080	1824	1080	2670	1080
19,000	1860	1710	1275	1170	515	1170	235	1170	444	1170	805	1170	1194	1170	1593	1170	1998	1170	2910	1170
20,000	2100	1800	1475	1260	675	1260	425	1260	520	1260	900	1260	1320	1260	1740	1260	2190	1260	3150	1260
22,000	2660	1980	1895	1440	995	1440	809	1440	805	1440	1110	1980	1572	1440	2046	1440	2574	1440	3710	1440
24,000	3220	2160	2315	1620	1315	1620	1203	1620	1185	1620	1320	2160	1824	1620	2382	1620	2958	1620	4270	1620
26,000	3780	2340	2735	1800	1643	1800	1597	1800	1579	2340	1625	2340	2094	2340	2718	1800	3374	1800	4830	1800
28,000	4340	2520	3155	1980	2043	1980	1991	1980	1987	2520	2025	2520	2382	2520	3054	1980	3822	1980	5390	1980
30,000	4900	2700	3575	2160	2455	2160	2395	2160	2395	2700	2425	2700	2670	2700	3430	2160	4270	2160	5950	2160
32,000	5620	3420	4135	2304	2867	2304	2803	2304	2803	2880	2865	2880	3015	2880	3822	2304	4718	2304	6670	2304
34,000	6340	4140	4695	2448	3279	2448	3215	3060	3215	3060	3305	3060	3471	3060	4214	3060	5166	2448	7390	2448
36,000	7060	4860	5255	2592	3691	2592	3635	3240	3635	3240	3745	3240	3959	3240	4606	3240	5614	2592	8110	2592
38,000	7780	5580	5815	2844	4131	2844	4055	3420	4061	3420	4185	3420	4449	3420	4998	3420	6094	2844	8830	2844
40,000	8500	6300	6375	3420	4655	3420	4475	3600	4505	3600	4625	3600	4945	3600	5390	3600	6670	3420	9550	3420
50,000	12600	9900	9975	6300	7275	6300	6925	5850	6725	4500	7075	4500	7425	4500	8225	5850	9550	6300	13350	6300
60,000	16840	13800	14075	9180	10575	10260	9765	8640	9525	7020	9525	5400	10425	7020	11385	8640	12590	10260	17350	9180
70,000	21140	17700	18275	12240	14175	13500	13045	11430	12485	9540	12725	9000	13465	9540	14655	11430	16035	13500	21350	12240
80,000	25440	21600	22475	15360	17945	16800	16705	14400	15925	12600	15925	12600	16725	12600	18065	14400	19625	16800	25350	15360
90,000	29740	25500	26775	18480	21785	20100	20445	17400	19725	16320	19625	16200	20205	16320	21495	17400	23225	20100	29350	18480
100,000	34040	29400	31075	21600	25625	23400	24225	20400	23625	20100	23325	19800	23725	20100	24925	20400	26825	23400	33350	21600
110,000	38340	33600	35375	24720	29625	26700	28245	24210	27665	23880	27375	23700	27565	23880	28565	24210	30445	26700	37350	24720
120,000	42640	37800	39675	27840	33625	30000	32305	28020	31705	27660	31425	27600	31405	27660	32205	28020	34065	30000	41350	27840
130,000	46940	42000	43975	31080	37625	33420	36395	31830	35785	31500	35525	31500	35345	31500	35845	31830	37685	33420	45350	31080
140,000	51240	46200	48275	34440	41625	36960	40525	35640	39945	35400	39625	35400	39385	35400	39645	35640	41305	36960	49350	34440
150,000	55540	50400	52575	37800	45625	40500	44675	39600	44125	39300	43725	39300	43425	39300	43525	39600	44925	40500	53350	37800
160,000	59840	54900	56875	41160	49785	44580	48825	43620	48305	43200	47825	43200	47505	43200	47405	43620	48685	44580	57350	41160
170,000	64140	59400	61175	44520	53945	48660	52995	47670	52485	47160	51975	47100	51585	47160	51335	47670	52445	48660	61350	44520
180,000	68440	63900	65475	47880	58105	52740	57205	51780	56665	51240	56125	51000	55665	51240	55365	51780	56205	52740	65350	47880
190,000	72740	68400	69775	51240	62265	56880	61415	55890	60845	55320	60275	54900	59745	55320	59395	55890	59965	56880	69350	51240
200,000	77040	72900	74075	54600	66425	61200	65625	60000	65025	59400	64425	58800	63825	59400	63425	60000	63725	61200	73350	54600