BUDGET SPEECH

1993

By
The Honourable Mr Gert Hanekon
Minister of Finance
27 May 1993

INDEX

		PARAGRAPH
1.	**Introduction**	**1.1**
2.	**Current Economic Development**	**2.1**
	Global Overview	2.1
	The South African Economy	2.3
	The Namibian Economy	2.5
3.	**Public Finances: The Previous Financial Year – 1992/93**	**3.1**
	Revenue	3.2
	Expenditure	3.4
4.	**The New Financial Year – 1993/94**	**4.1**
	Format of the Budget	4.1
	Development Project Schedule	4.3
	Accounting System	4.5
	Revenue	4.6
	Expenditure	4.9
	- Current Expenditure	4.9
	- Capital Expenditure	4.12
	- Statutory Expenditure	4.14
	- Deficit	4.15
5.	**Tax Proposals**	
	Introductory Remarks	5.1
	Administrative Measures	5.2
	Statutory Measures	5.6
	- Sales Tax and Additional Sales Duty on Special Items	5.6
	- Income Tax on Individuals	5.16
	- Company Tax	5.18
	- Tax Incentives to Manufacturing Enterprises	5.22
	- Removal of Tax Exemptions of Parastatals	5.24
	- Taxability of Long-term Insurers	5.26
	- Special Deductions for Premiums of Educational Insurance Policies	5.28
	- Income Tax – Farmers	5.30
	* Introduction of new, market-related livestock values	5.30

* Abolition of averaging provisions for farmers 5.34

* Housing for farm labourers 5.35

- Other Amendments relating to Retirement Funds 5.36
- Other Amendments necessary due to the Commercialisation of Posts and Telecommunications 5.38
- Other Statutory Measures 5.39

* Moratorium on Stamp Duty and Transfer Duty during the re-organisation of a group of companies 5.39

* Consolidation of Stamp Duty legislation and adjustment of Stamp Duties 5.41

* Consolidation and amendment of Transfer Duty legislation 5.43

6. Conclusion 6.1

BUDGET STATEMENT: FINANCIAL YEAR 1993/94

1. INTRODUCTION

1.1 On the occasion of a recent public appearance I made the statement that our budget for 1993/94 will be under great strain and will definitely be the most difficult one since independence. I want to reiterate that statement today and to warn right at the outset that this fact will to a large extent overshadow my Budget Speech today and undoubtedly also the Budget debate in this House.

1.2 The reasons for our present budgetary problems are not far to seek. every man or woman who keeps abreast of affairs knows that the world is experiencing one of the longest and deepest economic recessions of this century and that this inevitably has a profound effect on export-oriented countries like Namibia.

1.3 The chief economist of a large South African insurance company recently described the position well by saying: "The USA and Canada are doing fairly well, Japan and Germany are in trouble, and all the other industrial countries are somewhere in between". The prestigious American magazine, Newsweek, however, is even less excited about the present state of the American economy and asks in its issue of 10 May this year: "What kind of a recovery is this? Instead of treating Americans to a bit of spring fever, the economy insists on taking two steps forward and one step back."

1.4 The situation in our part of the world is not much better and is being further aggravated by the political upheaval taking place in South Africa, the industrial giant of the whole Southern African region. I must be a brave and far-sighted investor indeed, whether local or foreign, who will not under these conditions prefer to wait for the economic clouds and political smoke to clear up before deciding whether it is worth the risk to invest in South Africa and the countries geographically and economically close to it.

1.5 Of course Namibia is much better placed, both politically and economically, than most other countries in Southern Africa, but, as I have said already, we cannot expect to escape the cold winds blowing all around us. Up to now we have fared relatively well from the pint of view of economic growth and stability, but it seems certain that 1993 will be a year of negative economic growth and may, from that point of view, turn out to be one of the worst years of the decade for us.

1.6 The effect which all this will have on the Government's finances is of

course clear and predictable: Government revenues from personal and company tax, and even from indirect taxes and many other sources of income, will stagnate or shrink, whereas the pressure for Government expenditure will increase rather than decrease, causing a widening gap that has to be bridget in some way or other. This was the painful reality with which we were faced in drawing up this year's budget and much as one might wish that circumstances were different, the harsh facts are that they are not different and that the problem will not go away if one ignores it; it will become worse. As Nikita Khruschev, General Secretary of the Communist Party in the Soviet Union, said on occasion: "Economics is a subject that does not greatly respect one's wishes."

1.7 One thing is crystal clear from the start in looking for the best possible solution to these diverging tendencies and that is that this is no time for luxuries and excesses of any kind, and that this applies to the state as much as to individuals. In last year's budget speech I pointed out that since independence Namibia's budget have been based on three main principles or aims, namely economic growth, equity and fiscal discipline. If one adds economic stability to the list, you have just about covered the whole range of general budgetary policy objectives in any country.

1.8 The first three objectives – growth, equity and discipline – received about equal emphasis in last year's budget, but this year it was clear from the start that there would have to be a shift in emphasis towards fiscal discipline and restraint. There is of course a school of thought that a government and a country can spend itself out of a recession or depression, and while there may be some truth in this for a large economy like the USA or Japan, I am afraid that this option is not open to Namibia – we would simply waste our resources and plunge our country into debt without achieving anything of lasting value except to ensure that when the time is ripe for the next upturn in the world economy, we will not be ready for it. Much of the tremendous debt burden which is weighing down and hamstringing development in many of the countries which become independent in the second half of this century, originated in this way. This is obviously not what we want for ourselves.

1.9 Discipline, restraint and prudence – these were therefore the watchwords in drawing up this year's budget and I am afraid that in this process I have had to be very tough and even pitiless with my colleagues and their ministries. I wish to thank them for their co-operation and understanding, and I hope that I can count on the Namibian people in general to react in the same way.

1.10 After this brief sketch of the background to this year's budget I will now proceed to put some flesh on these bare bones.
Before doing so, however, I would just like to make two more general

remarks in order to ensure that they will receive the necessary emphasis. Firstly, as regards general economic conditions in the world at large and Namibia in particular, the remarks I have made in this respect must not be taken to mean that I regard the position as hopeless. Far from it – if one takes a longer-term view, there are good grounds for optimism, perhaps more so in Namibia than in many other countries. It is just that to reap the full benefit of our future potential, we must squarely face the present facts and do the right thing.

1.11 Secondly, the fact that discipline and restraint are emphasized in this budget does not mean that the other objectives are neglected. Quite the contrary, the incentive measures that were recently announced to give a boost to industrial development is a good indication of this. There are many others and I will point them out as I go along.

2. CURRENT ECONOMIC DEVELOPMENTS

GLOBAL OVERVIEW

2.1 We now come to the part of the Budget Speech where we usually give an overview of current and expected economic conditions, first in the world as a whole, then in Southern Africa and finally in Namibia. I intend to keep these remarks very brief, partly because the economic background is discussed in detail in the Economic Overview released today together with the Budget, and partly because I need to devote more time to the “more interesting” aspects of the Budget – such as tax proposals.

2.2 World economic activity is estimated to have grown by only 1,1 per cent in 1992 after a period of almost zero-growth in 1991. The weak recovery was the combined result of modest growth in the industrial countries and much stronger growth in some of the developing countries, mainly in the Middle East, Asia and Europe, off-set by a sharp decline in economic activity in the former Soviet Union and other countries of Eastern Europe. The slow recovery in the industrial countries reflected mainly the persistence of large budgetary deficits in a number of countries, which adversely affected business and consumer confidence; large divergencies in economic policies among countries, which created tensions in financial and foreign exchange markets; and attempts by large corporations to adjust to these conditions by cost-cutting.

THE SOUTH AFRICAN ECONOMY

2.3 Next to the world economy, which is Namibia’s major market, the main external influence on our economy of course emanates from South Africa, and a few words on economic conditions in that country are thus called for.

2.4 South Africa's economic fortunes or misfortunes during 1992 are epitomized by the fact that its gross domestic product decreased by 2 per cent, which was the third consecutive annual decline in production. Apart from production, declines were recorded in expenditure, investment, saving, employment, and the surplus on the current account of the balance of payments, while the agricultural sector recorded a 24 per cent decline in real value added, mainly because of the adverse climatic conditions.

THE NAMIBIAN ECONOMY

2.5 Since independence the Namibian economy has persistently displayed a firm, yet low rate of expansion. The general economic climate in the country remains very subdued with only a few sectors showing significant progress. The output performance of the Namibian economy in 1992 was significantly affected by the moderate performance of the world economy in general and the South African economy in particular, which gave rise to depressed international commodity prices and a low level of domestic demand. Contrary to initial indications, the drought conditions during the 1991/92 rainy season did not seriously affect the overall growth of the economy. The year under review also saw the highest annual rate of consumer inflation recorded since **1970.**

2.6 Against the backdrop of this economic situation, the growth rate in real **gross domestic product** declined somewhat from **3,8** per cent in **1991** to **3,5** per cent in **1992.** Yet, the growth rate of 3,5 per cent in 1992 stands in sharp contrast to earlier expectations of an almost zero-growth situation. This achievement is even more remarkable in view of the serious drought during the **1991/92** rainy season and the late rains during the **1992/93** season. With the exception of uranium mining, where a considerable production loss was registered, the rest of the economy expanded in real terms by almost 8 per cent – not a bad performance at all.

2.7 **Consumer price inflation** in Namibia, as measured by increases in the consumer prices index of Windhoek, began to accelerate from **16,3** per cent in the last quarter of **1991** to an all-time high of **20,5** per cent in April **1992**, mainly as a result of above-average increases in the prices of food, clothing and footwear, as well as in furniture and equipment. From that point on the rate steadily declined to **8,7** per cent in March this year, the latest figure available.

ECONOMIC PROSPECTS FOR 1993 AND 1994

2.8 As regards the economic prospects for the rest of this year and for next year, the outlook for the world economy looks fairly good. The American economists are confident that the incipient recovery experienced at

present will continue and gather further momentum, and once that happens, the other industrial countries will hopefully follow suit. However, as Newsweek says, caution is the better part of valour.

2.9 The outlook for the **South African economy** remains overshadowed by the uncertainty regarding the outcome of political negotiations and the future constitutional dispensation, as well as the protracted violence. These events in turn weaken investors' confidence, which further slows down the already sluggish economy. Given these circumstances, economists do not expect any marked improvement in the growth prospects of the South African economy this year. The recent increase in the gold price may, however, have a favourable effect on the South African economy.

2.10 I have personally in the recent past had visits from South Africa industrialists who have told me that they are very despondent and can no longer cope with the political uncertainties in South Africa. I do not want to do or say anything which would further compound South Africa's problems, but if there are South African industrialists and investors who are looking for a safer haven, I want to urge them to have a serious look at Namibia. After the recent announcement of our industrial incentive package we are ready and eager to talk business with them.

2.11 Naturally, the current and expected economic situation in South Africa will affect the Namibian economy in the coming months through lower export demand for our products, lower rates of inflation for goods imported from South Africa, possible further declines in interest rates and a weaker currency.

2.12 As I have already said, the Namibian economy has shown fairly satisfactory results during the past two calender years, but present indications are that 1993 will be a disappointment in this respect. This view hinges largely on the expected downturn in diamond mining, where real output rates are expected to decline by more than 21 per cent. Under these adverse conditions Namibia will not be in a position to record any positive growth during 1993. On the contrary, the real gross domestic product could decline by as much as 1,9 per cent.

2.13 This is bad news to say the least. With a high population growth rate of 3,1 per cent, this negative growth in the GDP implies a drop in the GDP per capita, in other words the standard of living, of 4,8 per cent. As I said at the outset, it is also the main reason why we have such a struggle to make ends meet in the Budget this year.

2.14 Ironically and fortunately, in many other respects the economy is expected to perform well and if we exclude the diamond mining industry from the projected real GDP, the rest of the economy is expected to grow at a rate of 3,4 per cent in 1993. This does not change the fact,

however, that the overall growth rate of the economy will almost certainly show a marked decline.

2.15 If we take the long view, on the other hand, a notable improvement in economic conditions is projected as from next year, largely on account of the expected recovery in diamond and uranium mining, as well as gradually increasing fishing and fish processing activities. If this materializes, and I feel confident that it will, we should be back on course next year with a real increase in the GDP per capita of about 4,5 per cent.

3. PUBLIC FINANCES: THE PREVIOUS FINANCIAL YEAR - 1992/93

3.1 The 1992/93 financial year was a very difficult year for Government, especially with the severe drought situation in the country. I am, however, very grateful to be able to inform honourable members that in spite of all these difficulties the preliminary statements, before the final closing of the books and before auditing, indicate that Government was able to stay within the appropriations approved by Parliament for 1992/93.

REVENUE

3.2 In the additional budget for 1992/93 total revenue from own sources was estimated at R2 633 million. However, it now appears that total collections amounted to R80 million more than the estimate. Revenue sources that contributed to this surplus are: Companies other than mining R18 million; General Sales Tax R21 million; Diamond Export Duty R9 million; Income Tax on Individuals R6 million; Levy on Fuel R13 million; Loan Recoveries R2 million; Licences R2 million; Other Government Revenue, which represents collections by the different ministries, R13 million. On the other hand, some revenue sources were below target, for example, Other Mines R4 million. Foreign contributions were R16 million below the target and Compensation for the use of the Rand was R11 million more. It was also estimated that a net amount of R347 million would be raised through loans, while only R297 million was taken up.

3.3 To summarise, total revenue for the financial year 1992/93, from both own and outside sources, was estimated at R3 442 million, while R3 468 million was in fact collected, i.e. R26 million more than expected.

EXPENDITURE

3.4 In the additional budget for 1992/93 the total expenditure to be financed

was estimated at R3 662 million. Preliminary figures now available indicate that total expenditure will be R3 642 million, R20 million less than estimated.

3.5 In the additional budget it was envisaged that an amount of R347 million would have to be borrowed to finance the deficit. However, as a result of the fact that it now seems that the total revenue will be R26 million more than expected and total expenditure R20 million less than expected, it was only necessary to borrow R297 million. I must mention in parenthesis that these figures are not necessarily correct to the last digit because some of the year's transactions are still being processed, but the figures should be very close to the mark.

4. THE NEW FINANCIAL YER – 1993/94

FORMAT OF THE BUDGET

4.1 As from the 1991/92 financial year my Ministry has consistently endeavoured to improve the budget format so as to comply with international standards and to make the budget format as informative as possible.

4.2 Honourable Member will observe, for instance, that this year's budget is divided into two major categories, namely Operational Expenditures and Development Expenditures. Further changes were also made to the economic classification to identify the different expenditures more clearly. Main division codes were extended to four digits to make provision for development projects, and subdivision codes to three digits to provide for more subdivisions.

DEVELOPMENT PROJECT SCHEDULE

4.3 In my budget speech last year I indicated that we intended changing the presentation of development projects so as to clearly explain their objectives and physical targets or outputs, and also to indicate future financial commitments beyond the current financial year.

4.4 The budget document presented for 1993/94 is therefore complemented by a development project schedule, prepared by the National Planning Commission, which gives more detailed information on each project.

ACCOUNTING SYSTEM

4.5 Honourable Members will remember that in my budget speech last year I mentioned that the Minister of Finance, with the help of IMF experts, was working o an integrated computerized financial management system for Treasury and the Ministries. The first phase of this project has now been completed and is in the process of being implemented. I must point

out that this is a very time consuming and complicated process and it will take some time before the total project will be completed and implemented.

REVENUE

4.6 Turning now to the figures, the total revenue for 1993/94 is estimated at R3 009 million after provision has been made for the tax proposals with which I will deal later on. This is R106 million, or 3,7 per cent, more than the corresponding estimates in the additional budget for 1992/93.

4.7 The increase of R106 million is mainly due to an expected increase of R158 million in taxes and duties and R118 million in Customs and Excise, which will be partially offset by decreases in Compensation for the use of the Rand (R99 million), Amortisation Fund (R36 million), Other Government Revenue (R35 million) and Loan Recoveries (R3 million).

4.8 Let me briefly explain some of the expected increases and decreases in the revenue collections:

4.8.1 ***Income Tax payable by Diamond Mines*** is expected to amount to R60 million, i.e. R30 million less than the revised estimate for 1992/93. The decrease is mainly due to the introduction of a quota system I the marketing of diamonds by the CSO, which has the effect that only 80 % of the total production can be sold, with a consequent drop in profits.

4.8.2 ***Diamond Profits and Diamond Export Duties*** similarly show decreases of R22 million and R4 million respectively.

4.8.3 ***Income Tax payable by Other Mines*** is expected to increase by R42 million. The increase is due largely to new sales contracts entered into for the sale of uranium and to a lesser extent to increased profits expected by the base mineral mines. It is heartening to see that there is a turnaround in these areas albeit still modest.

4.8.4 It is estimated that ***Sales Tax*** will bring in R90 million more than in the revised estimate for 1992/93.

4.8.5 Increases in ***Transfer and Stamp Duties*** of R4 million and R10 million respectively are also anticipated and are due to proposed changes in the legislation.

4.8.6 The estimate for ***Fuel Levy*** (R260 million) is R70 million more than in the revised estimate for 1992/93. The increase is partly due to the recently announced increase in the price of fuel.

4.8.7 No more funds are available under the ***Amortisation Fund*** as the Act was repealed during 1992/93 and all surplus funds transferred to the State Revenue Fund.

4.8.8 ***Compensation for the use of the Rand*** will be R99 million less because the estimate for 1992/93 included arrear payments in respect of previous financial years.

4.8.9 The increased amount estimated to be received for Customs and Excise is due to the fact that when the 1992/93 Revised Budget was prepared our correct allocation from the Common Customs Pool was not yet determined and only actual receipts up to that date were therefore included in the Revised Budget.

EXPENDITURE

CURRENT EXPENDITURE

4.9 Total current expenditure for 1993/94 is estimated to be R2 735 million, which is R96 million less than the R2 831 million which appeared in the Main Budget for 1992/93. The decrease is due partly to the commercialisation of postal and telecommunication services, as well as to a determined effort by the Cabinet to cut back on Government spending in order to stay within our means.

4.10 As in previous budgets the ministries receiving the biggest share of total current expenditure are Education and Culture with R780 million and Health and Social Services with R440 million, or 28,5 per cent and 16 per cent respectively of total current expenditure. I might mention here that plans are afoot to undertake a comprehensive study later this year, with the assistance of the World Bank and other experts, a so-called Public Expenditure Review, to enable us to determine expenditure priorities in a more thorough and scientific manner than has been possible up to now.

4.11 More detailed information on the separate votes will be given by my colleagues during the committee stage of this debate, but allow me to point out just two of the special provisions:

4.11.1 ***Continuation of Drought Relief*** is of the utmost importance because parts of the country are still drought stricken and outstanding commitments for the 1992/93 financial year must still be met. Therefore R50 million and R12 million have been provided under the votes Agriculture and Water Affairs respectively.

4.11.2 It is also necessary to provide additional funds to the

Government Garage and Government Stores Trade Accounts to enable them to fulfil their functions properly. R18 million has been allocated to the Government Garage to clear their losses and R6 million working capital to the Government Stores to enable them to meet the demands of ministries.

CAPITAL EXPENDITURE

4.12 An amount of R533 million has been provided in the budget as capital, lending and equity participation expenditure, which is R136 million less than the R669 million of 1992/93. If the following amounts are deducted from the 1992/93 allocation, however, the R533 million for 1993/94 actually is R18 million more than the previous year:

4.12.1 Capital expenditure which falls away as a result of the commercializing of Post and Communication services - R30 million;

4.12.2 operational capital, i.e. for office equipment, vehicles, operational equipment, machinery and plant that do not form part of development projects; this was cut back from R86 million in 1992/93 to R37 million for 1993/94;

4.12.3 the provision of R75 million for the purchase of an airplane in 1992/93, which was a once only expenditure.

4.13 The votes of Works, Transport and Water Affairs are the largest on the capital programme, with R150 million, R118 million and R69 million respectively. Full details of development projects by functional classification are provided in the Development Project Supplement which I have mentioned earlier.

STATUTORY EXPENDITURE

4.14 Statutory expenditure, which mainly represents capital repayments and interest on public debt, amounts to R98 million. As the repayment of debts which were guaranteed by South Africa has not yet come into effect, the repayment of capital is still very small but will increase as from 1995/96. Details of statutory expenditure can be found on page 353 of the budget document.

DEFICIT

4.15 The total expected expenditure to be financed amounts to R3 366 million and represents current expenditure to the amount of R2 735 million, capital expenditure of R533 million and statutory expenditure of R98 million. I indicated that total estimated revenue will be R3 009 million, leaving a deficit of R357 million, which I propose to borrow on

the local and on foreign markets. For the peace of mind of members of this Honourable House I wish to emphasise that borrowings on foreign markets will only be on concessionary terms. The net deficit to be funded by borrowing constitutes 4,5 per cent of total G.N.P., which is within accepted norms.

5. TAX PROPOSALS

INTRODUCTORY REMARKS

5.1 Mr. Speaker, I now come to that part of the annual Budget Speech which Will affect all of us in one way or another, namely tax proposals. In considering the tax structure of any country the effects of any changes should be carefully considered and studied before any decision is taken. In may view, there are at least five major criteria by which one should judge any tax or proposed tax, namely

1. The tax must be productive, i.e. the cost incurred to recover the tax must be justified.

2. The tax must be fair, i.e. you have to consider the taxpayer's ability to pay, as well as the direct and subjective costs to him or her of earning the income, while the minimum income required to make a basic living must be established and exempted from direct tax.

3. The tax must be **adjustable** – it should be capable of variation, both up and down, according to changes in policy.

4. The tax must be **stable** to render an assured income to the Government and the income must also be assuredly **predictable.**

5. The **simplicity** of the tax is important so that it can easily be implemented and easily be understood by the taxpayer.

ADMINISTRATIVE MEASURES

5.2 As I mentioned last year, Mr. Speaker, it is intended to establish further regional tax offices in Namibia. Recently Cabinet approved a new rationalized structure for the Ministry of Finance and as concerns the Directorate Inland Revenue, considerable changes are envisaged.

5.3 The present Revenue Office in Windhoek will in the near future be divided into a head office and a separate regional office to serve taxpayers for the Central, Southern, Eastern and Western Regions until further regional offices are opened. Once the head office is functioning well, more time and energy can be devoted to ensure strict compliance with the various provisions of tax legislation administered by my Ministry. At the same time, a formal programme to train personnel and inform the

general tax-paying public of their obligations and duties, will be embarked upon.

5.4 An important administrative matter was finally also attended to recently. In terms of the Income Tax Act, the Permanent Secretary for Finance is empowered to adjust the values placed on fringe benefits from time to time and, as everyone knows by now, new values for the purposes of fringe benefits taxation will enter into force as from 1 June 1993. Employers have already been notified of the new values to be used in determining the amount of tax to deducted monthly and paid over to the Receiver of Revenue for employee's tax purposes.

5.5 The previous values have been in force since 1987 – six year ago – and were found to be ridiculously low in some cases. For instance, if a company car worth R120 000 was supplied to an employee, only R450 was added each month to the remuneration of such an employee. Compared to a taxpayer who has to provide for his own transport, the employee having a company car clearly enjoyed a benefit which was taxed at a very low value. Even at the top marginal rate, the employee having a company car only paid R180 per month for the right to use the car. Such an employee will now have to pay more tax on fringe benefits, which will to some extent reduce the discrimination between taxpayers who do not receive such benefits and those that do. This is no more than right, and although there will of course be taxpayers for whom this adjustment will be uncomfortable or even painful, I do not expect to be criticized on the principle involved.

STATUTORY MEASURES

SALES TAX AND ADDITIONAL SALES DUTY ON SPECIAL ITEMS

5.6 One of the criticisms of our Sales Tax Act is that the tax is levied at a single rate at point of sale, and that all goods and taxable services are subject to the same rate of tax – presently 11 per cent. This is obviously unfair since luxury and non-essential goods should be taxed higher than necessary and basic needs of the people.

5.7 A differentiated sales tax system whereby certain transactions are taxed at a high rate, while other transactions are taxed at lower rates, is however not a wise alternative, since international experience showed that such a system leads to insurmountable administrative problems, serious misuse and tax avoidance.

5.8 It is therefore proposed to re-introduce the sales duty system, according to which certain items (so-called non-necessities) are taxed at a relatively high rate, while other items are taxed at lower rates and some are completely exempt from this duty.

5.9 The sales duty will be levied at the point of wholesale, import or manufacture and is in addition to the sales tax levied at point of sale. The tax will be levied according to comprehensive schedules to be published, and the necessary power to amend the schedules from time to time will be created in the Act. Examples of the intended rates are as follows: -

5.9.1 Spirits, wine, cigarettes, television sets, video recorders, compact discs, clocks and watches, perfumery, cosmetics and toilet preparations, natural and cultured pearls, precious and semi-precious stones and jewellery will be taxed at the rate of 15 per cent.

5.9.2 Certain items, for instance beer, films, musical instruments, sound recording and reproduction equipment, camping equipment, air-conditioners, lawn-mowers, office equipment, electrical household equipment and spare parts for this, as well as passenger motor vehicles (including station wagons and similar or dual-purpose motor vehicles) with an import value of more than R150 000 will be subject to an additional sales duty of 10 per cent.

5.9.3 Items exempt from this duty will include live animals, all petroleum products, diesel oil, paraffin, goods used directly in the manufacturing and mining process (excluding vehicles and office equipment), fresh fruit and vegetables, meat, fish, maize-meal, mahango, bread, dairy products, medicine and used vehicles and other used articles, as well as certain farming inputs and manufacturing equipment acquired for manufacturing purposes.

5.9.4 All items which are not exempt or subject to a sales duty at the rate of 15 or 10 per cent, will be subject to additional sales duty at the rate of 5 per cent. Such items would, for instance, be clothing, footwear, stationery, furniture, spare parts for motor vehicles, building materials, etc.

5.10 Since certain administrative measures must be put into operation and additional personnel recruited, this additional sales duty will not be levied before 1 September 1993.

5.11 The good news, Mr. Speaker, is that it was decided to lower the **general sales tax rate** in respect of sales and importations from 11 to 8 per cent. In respect of all other transactions, for instance if **taxable services** are rendered, the rate will remain at 11 per cent. The new rate of 8 per cent in respect of sales and importations will come into effect o 1 July 1993.

5.12 It is further proposed to abolish the exemption in respect of so-called **banking fees**. When comparing these services with other administrative services, such as services rendered by medical fund administrators, the exemption from sales tax for ordinary banking services can no longer be justified.

5.13 Another aspect which was given some thought was the fact that certain institutions, such as foreign embassies, and donor countries, sometimes make donations to organizations or persons who do not qualify for an exemption in terms of the Sales Tax Act. It is proposed that the Minister of Finance be empowered to grant exemption from sales tax under these circumstances in consultation with any other Minister whose Ministry may be involved.

5.14 At present, a vendor may elect to choose between two systems of recovering sales tax from clients, namely the inclusive or the exclusive system. For the sake of uniformity, it is proposed that as from 1 September 1993 all vendors, except auctioneers, must use the **inclusive system** of recovering both sales tax and additional sales duty so that the price advertised on an item would be the final price to be paid.

5.15 The net result of the lowering of the sales tax rate to 8 per cent and the introduction of an additional sales duty is an estimated increase in revenue of R150 million per annum, which brings the total estimated revenue from sales tax and the additional sales duty to R630 million for a full year.

INCOME TAX ON INDIVIDUALS

5.16 The International Monetary Fund some time ago criticized our relatively high individual tax rates. I fully agree with them and after lengthy deliberations in my Ministry, I now propose that the top marginal rate for income tax on individuals be lowered by a further two per cent to 38 per cent for taxable amounts exceeding R15 000, and the maximum rate of 38 per cent will only be effective on taxable amounts in excess of R100 000. The personal abatements stay the same, except that the definition of “sole breadwinner” is to be widened to include divorced persons having the sole custody of their children and unmarried mothers not receiving any maintenance by order of Court.

5.17 The new tax rates will apply retrospectively, that is from 1 March 1993.

COMPANY TAX

5.18 The rate at which ordinary companies are taxed is 40 per cent at present.

5.19 It has always been accepted practice in this country that the company tax rate should be the same as the top marginal rate for individuals. In line with the proposal that the top marginal rate for individuals be lowered from 40 per cent to 38 per cent, it is therefore proposed that the company tax rate also be lowered from 40 to 38 per cent.

5.20 Companies in the manufacturing sector will pay tax at a rate which will in effect be lower still in terms of the incentives announced earlier.

5.21 The new rate of taxation as well as other amendments relating to company taxation will be made effective for companies whose tax year commences on or after 1 January 1993.

TAX INCENTIVES TO MANUFACTURING ENTERPRISES

5.22 The tax incentives to manufacturing enterprises as announced by His Excellency, the President, last month have been positively received both locally and internationally. Since the Income Tax Act has to be amended substantially to accommodate these incentives, I will briefly describe them again:

5.22.1 Manufacturers who are registered with the Ministry of Trade and Industry and the Ministry of Finance, will qualify for the following incentives:

(a) A 50 per cent abatement on taxable income derived from manufacturing for a period of 5 years, to be phased out over a subsequent period of 10 years;

(b) an accelerated building allowance for buildings used in the manufacturing process as follows: 20 per cent in the first year and 8 per cent per year of the balance over 10 years;

(c) an additional deduction of 25 per cent in respect of training and production wage expenditure, provided that the contents, duration and costs of a training programme must be agreed upon with the Ministry of Trade and Industry and the Ministry of Labour and Manpower Development before its commencement, and recorded by the Ministry of Finance;

(d) an additional deduction in respect of export expenditure, which includes a wide range of activities relating to research on the marketing of goods, as well as advertising and soliciting orders in a foreign country. This deduction will range from 25 to 75 per cent depending on the current export turnover and the extent

to which it exceeds the basic export turnover.

5.22.2 In addition to these incentives, the Minister of Finance will be empowered to negotiate, in consultation with a Minister whose Ministry is involved, with extremely deserving manufacturing enterprises on the following issues:

(a) the rate of tax payable, which could even be zero; and

(b) the period or term for which such rate will apply.

The conditions (as negotiated) must be published in the *Gazette* as soon as they are approved by the Minister of Finance.

5.23 It is hoped that these incentives, together with the other special incentives, e.g. the granting of concessional loans, cash grants for exporters and the purchase of industrial studies, will bring us closer to the ideal of economic reconstruction by the active promotion of manufacturing activity.

REMOVAL OF TAX EXEMPTIONS OF PARASTATALS

5.24 Parastatals in Namibia operate on normal business principles and enjoy exemption from income tax, which places them in a more advantageous position when compared to other enterprises in the same economic sector.

5.25 In moving towards a broad tax base the removal of tax exemptions which restrict this base, follows logically. It is therefore proposed that tax exemptions which parastatals enjoy be removed and that only assets acquired during the preceding three years be allowed to be written off in terms of the existing procedures.

TAXABILITY OF LONG-TERM INSURERS

5.26 At present the taxable income of a long-term insurer is deemed to be 40 per cent of the investment income derived from carrying on long-term insurance business, but excluding income from retirement funds. However, South Africa recently announced a new approach in taxing the income of such insurers, which is as follows:

(a) the income of retirement funds will, as at present, be exempt from tax;

(b) the income of individually-owned life policies will be taxed at the rate of 30 per cent;

(c) the income of company-owned policies will be taxed at the rate of 40 per cent; and

(d) the income representing the balance of the insurers' assets will be taxed at the rate of 40 per cent.

5.27 It is suggested that this is a fairer approach, taking into account that insurers could be regarded as trustees of funds actually belonging to policy-holders. It is therefore proposed that this method of taxing the income of insurers also be adopted for Namibia.

SPECIAL DEDUCTION FOR PREMIUMS ON EDUCATIONAL INSURANCE POLICIES

5.28 In order to promote the private funding of future education, it is proposed that premiums paid towards so-called educational policies, be tax deductible. To prevent possible misuse of this allowance, however, the proceeds of the policy will be taxable, unless it can be proved to the satisfaction of the Permanent Secretary for Finance that the proceeds of the policy are in fact being used for educational purposes.

5.29 Premiums paid towards such policies will be deductible for tax purposes subject to the present R15 000 ceiling applicable to contributions paid towards pension and retirement funds. This means that the aggregate of contributions paid towards educational policies should not exceed R15 000.

INCOME TAX – FARMERS

INTRODUCTION OF NEW, MARKET-RELATED LIVESTOCK VALUES

5.30 The present standard values for livestock have become outdated since these values were last determined in 1982. Due to these very low values of livestock it may happen that where a farmer bought livestock in a year of assessment at market values and the very same livestock are valued at the end of the tax-year at low standard values, a loss could be created which is off-set against other income or carried forward to the next tax-year. As the total value of livestock on hand also forms part of the taxable income of a farmer, these low values give rise to an under-declaration of taxable income.

5.31 It is therefore proposed that the Minister of Finance introduce new, market-related standard values for livestock by regulation in the *Gazette* and that farmers will not be allowed to choose livestock values below the standard values.

5.32 The new minimum market-related livestock values will enter into force

on 1 March 1993 and the difference between the closing livestock values of a farmer at 28 February 1993 and the new opening values will be taxed over a period of 5 years in equal annual amounts. Should a farmer discontinue farming operations within the period of 5 years the untaxed portion will be taxed in that year.

5.33 Given the cash-flow situation of farmers, just recovering from a severe drought, it is proposed that 50 per cent of the first year's difference between the new values and the present values be phased in tax-free. As far as the other years are concerned, it will be considered every year as circumstances permit.

ABOLITION OF AVERAGING PROVISIONS FOR FARMERS

5.34 At present a farmer may elect to be taxed on the basis of the average income from farming during a five-year period. If the rate so chosen exceeds the normal rate of taxation, the normal rate will apply. In view of the increased minimum standard values and the fact that farmers will more and more be treated like any other trader for tax purposes, it is proposed that the averaging provisions be abolished.

HOUSING FOR FARM LABOURERS

5.35 Farmers may at present deduct R4 000 per tax-year in respect of buildings used for domestic purposes by any of his or her employees. Since this amount has never been adjusted since 1981, it is now proposed that the amount of R4 000 be increased to R15 000.

OTHER AMENDMENTS RELATING TO RETIREMENT FUNDS

5.36 With the approval last year of provident funds for tax purposes certain situations were overlooked, and following consultations with the insurance industry, it is now proposed that provident fund benefits which are paid out from a source outside Namibia will be deemed to be from a source within Namibia. Other proposed amendments include the taxability of provident fund benefits should such a fund be wound up, and the duty of provident fund administrators to deduct tax before benefits are paid out.

5.37 During 1989 certain pension funds were liquidated and members of these funds could either transfer their share in the old funds to new pension funds or take out individual retirement annuity contracts. Most members chose the last-mentioned option. The taxability of annuities under individual retirement annuity contracts entered into under these circumstances has led to uncertainty and to negotiations with the South African tax authorities, who conceded that such annuities are to be linked to service rendered in Namibia. To eliminate all uncertainty it is

therefore proposed that the Income Tax Act be amended so that benefits received under the rules of a retirement annuity fund taken out as a consequence of the liquidation of a pension fund will be deemed to be from a Namibian source.

OTHER AMENDMENTS NECESSARY DUE TO THE COMMERCIALISATION OF POSTS AND TELECOMMUNICATIONS

5.38 Tax returns could in the past, if marked "Official", be dispatched free of postage. Due to the commercialization of the Department of Posts and Telecommunication, however, this concession can no longer be granted and tax returns sent to the Receiver of Revenue will in future require postage to be paid like all other correspondence.

OTHER STATUTORY MEASURES

MORATORIUM FROM STAMP DUTY AND TRANSFER DUTY DURING THE RE-ORGANISATION OF A GROUP OF COMPANIES

5.39 Over the past number of years certain groups of companies have over-expanded their corporate structures through acquisitions, new developments and diversifications. This could be an unhealthy situation, not only for themselves but for the Namibian economy as well. At the same time, however, they could be prevented from restructuring the groups because of the imposition of transfer duties. The streamlining of company structures and /or the listing of controlling companies on the Namibian Stock Exchange, should however, be encouraged.

5.40 It has therefore been decided to grant a moratorium of to years to groups of companies which intend to re-organise their company structures. During this period the transfer of property or shares will be exempt from stamp duty and transfer duty.

CONSOLIDATION OF STAMP DUTY LEGISLATION AND ADJUSTMENT OF STAMP DUTIES

5.41 Existing stamp duty legislation in Namibia has become extremely cumbersome. The Stamp Duty Act of 1968 (which is a South African Act made applicable to Namibia) has been amended several times and it is now proposed that the existing legislation be consolidated and adjusted for Namibia.

5.42 At the same time it could be opportune to announce increase stamp duties. The present duties have become outdated and will therefore be adjusted upwards. Additional revenue in the region of R12 million is expected from this source for a full year.

CONSOLIDATION AND AMENDMENT OF TRANSFER DUTY LEGISLATION

5.43 Present legislation regulating the payment of transfer duties is embodied in the Transfer Duty Act, Act 40 of 1949, as amended on several occasion. It has now become necessary to revise and consolidate it.

5.44 Transfer duty is currently payable on the transfer of property at the rate of 5 per cent for companies, and for natural persons at the rate of 1 per cent on the first R30 000 and 3 per cent on the difference.

5.45 These rates have never been adjusted since 1974 and it is therefore proposed that the rates and the exemption thresholds now be adjusted as follows:

UNIMPROVED LAND

If the value of the unimproved land is less than R24 000 no transfer duty is payable. If the value of unimproved land exceeds R24 000:

(i) 1 per cent is payable on the first R24 000;

(ii) 5 per cent is payable on the amount between R24 000 and R150 000, i.e. on the next R126 000; and

(iii) 8 per cent on the remaining amount above R150 000.

IMPROVED LAND

If the value of improved land is less than R60 000, no transfer duty is payable. If the value of improved land exceeds R60 000:

(i) 1 per cent is payable on the first R60 000;

(ii) 5 per cent is payable on the amount between R60 000 and R150 000, i.e. on the next R90 000; and

(iii) 8 per cent on the remaining amount above R150 000.

5.46 To sum up Mr. Speaker, I trust that all the aforesaid announcements and proposed changes to our tax structure conform to the basic requirements for tax amendments as outlined earlier in my speech.

6. CONCLUSION

6.1 Returning finally to the overall budget figures, or the “bottom line” as it is called these days, I have already pointed out that total Government revenue from all sources except loans is expected to be R3 009 million in

1993/94 and total Government expenditure on all items except repayment of loans R3 366 million. This leaves a net deficit to be financed by borrowing, both local and foreign, of R357 million, which is 4,5 per cent of the gross national product (GNP) as against 5,7 per cent last year. There will therefore be a reduction in this ratio and we hope to continue along this road in future.

6.2 Some of the other macro-economic ratios are just as interesting. Government expenditure as a percentage of the GNP was 47,9 per cent in last year's main budget as against 42,5 per cent this year. This looks good although one must remember that the figures are not quite comparable because last year's budget included some expenditure items which were not repeated this year, as I have already pointed out.

6.3 Another interesting aspect if one compares this year's main budget with last year's, is that last year current expenditure exceeded own revenue by R10,2 million, which therefore had to be financed from other sources (loan funds, foreign contributions or savings from previous years). This year, however, this deficit has been turned into a surplus of R181,8 million, which means that we have effected considerable net savings which will be utilized towards the financing of capital expenditure.

6.4 Let us finally take a look at the ratio of Government debt to GNP. The Government debt contracted after independence was R326 million on 31 March 1993, which was 4,4 per cent of the GNP, and if the debt is increased by R357 million this year, as I have proposed, the debt ratio on 31 March 1994 will be 8,6 per cent. If we add the pre-independence debt the corresponding ratios will be 15,1 per cent for 1993 and 18,6 per cent for 1994. The significance of these figures can be put into perspective by noting that the limit for this ratio set out in the Maastricht treaty on European union is 60 per cent and that the ratios for Belgium, Ireland and Italy all currently exceed 100 per cent. Again, one can only come to the conclusion that our position is very health and is big managed well.

6.5 Mr. Speaker, I have come to the end of this years' budget statement and I am sure I have given Honourable Members enough food for thought to last them a long time. Although I regret that I have had to announce some unpopular measures, I am sure Honourable Members will agree that it could have been much worse. In fact, judging by the pre-budget speculation in the news media, much worse was what most people expected. I only hope that our expectation of an improvement in economic conditions by this time next year will come true and that I will consequently be in a position to present a more popular budget to the country at that stage.