Lineo Sileki

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Dear Honourable Allen Wicomb

DRAFT EMPLOYMENT TAX INCENTIVE BILL

As we all discuss the Honourable President Jacob Zuma's administration's economic policy and its effect on middle and lower-income families, we are concerned that many people within these groups are going to be driven close or below the poverty line and will never be caught by this, "Employment Tax Incentive Bill" net. The conclusion of this bill is pretty much predictable, my analysis is sober and transparent, and can be surprisingly interesting.

Another simple prediction is The Standing Committee on Finance (National Assembly) will never lose elections if they keep one thing in mind. That is, **"they might be friendly to the poor but they should certainly not be enemy to the rich".** I express this point because no one will argue with the fact that the poor are the ultimate beneficiaries of the savings of the rich and more competent to getting things done on behalf of the government. We will not bite the hand that feed us.

The reincarnated trickle-down economists might think it's not fair for someone who view proper government assistance was to pour money into the hands of the wealthy and let it seep down through their fingers into the hands of the poor. Whatever we may think, these tax incentives are a lot more efficient in getting things done if allocated with divine wisdom.

I don't know how persuasive it is but by giving us these tax incentives, the government is giving us an incentive to invest into Real Estate, mining, farming etc. President Zuma and his 'supply-side' economics can be better than ever if my following idea will be taken to consideration;

*Hypothetically, take two brothers with identical incomes as well as identical tastes, needs and expenses. If one of them finishes each year with more money than the other, a good guess is that he is more proficient especially in the use of **employment tax incentives.** That gives him an advantage over his brother that he will not easily surrender or sacrifice in return of a flat tax rate or some other system of equalization. He developed the need, virtue and wisdom of maintaining the tax incentive bill to work with our government policies.*

AN AMOUNT BY WHICH EMPLOYEES' TAX MAY BE REDUCED

I will begin by assuming the clever brother is Tom, with a taxable income of R500 000.

His federal income tax in 2012/2013 by SARS is approximately R134 480.

(But under the South African Revenue Code, he is entitled to deductions, credits and exemptions to lower his taxes). Here is how he works on his finances:

He joins the medical insurance scheme, give to charity etc to the amount of R50 000.

Then he builds a family house for investment for R1 000 000, which can be depreciated over 15 years at approximately R66 667 per year.

Building an investment house because of desiring to be caught in an "Employment Tax Incentive Bill" net, Tom has given a lot of people jobs. Even better, when a new tenant moves into a new house, his old one becomes vacant making space available for someone less affluent than he. That person's old apartment in turn will now be open to a family one step farther down the economic ladder and so forth, until lower income families and the poor are decently housed. This is to show that the poor are the ultimate beneficiaries of the rich.

Here is where the effectiveness of the Tax Incentive Bill shows, after investing in Real Estates:

Since a house is a real estates with a 15 year depreciable life and has a minimal land value of million Rand, Tom can deduct R66 666 (R1 000 000/15).

As I said earlier Tom's tax before buying the house is around R116 500 on R450 000 of taxable income.

With R66 667 depreciation deduction, his taxable income will have reduced to R383 334(R450 000 – R66 666).

Therefore, his tax bill on R383 334 is R93 167. A saving of R23 333(R116 500 – R93 167)

SUMMARY

CALCULATING FIRST YEAR TAX SAVINGS ON TOM'S HOUSE

Tax before Investment

Taxable income	R500 000
Rate of tax	X 26%
Amount of tax	**R134 480**

Tax after medical insurance & charitable contributions

Taxable income	R500 000
Tax loss (medical & charities)	- R50 000
Net taxable income	R450 000
Rate of tax	X 26%
Amount of tax	**R116 500**

Tax after house investment

Taxable income	R450 000
Depreciation on house	-R66 666
Net taxable income	R383 334
Rate of tax	X 24%
Amount of tax	**R93 167**

TAX SAVINGS

1.	Tax before any investment	R134480
	Tax after medical and charity	-R116 500
	Result	R17 980
2.	Tax before house investment	R116 500
	Tax after house investment	R 93 167
	Result	R23 333