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TAXATION | BASIC

# Video Transcription: Introduction to Tax



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Hi, my name is Riley Carpenter. It is often said that, “In this world, nothing is certain except death and taxes”. Tax affects all individuals. However, if you are an accountant, taxes will play an even greater part in your life and career. For example, you may be responsible for the tax disclosure in company financial statements, filing tax returns for clients, the collection of taxes or the drafting or interpretation of tax legislation. And, of course, you will also be paying taxes to the South African Revenue Service.

Everyone studying towards becoming an accountant spends a lot of time studying tax. As you work towards understanding different taxes and how they work, it will help to have a big picture of where tax fits into an economy. This is what this video will look at.

Each year in February, the Minister of Finance delivers his annual budget speech. In it, the minister outlines how government intends to allocate its spending for the next fiscal year. Leading up to the speech, an enormous amount of work goes into determining the country's needs in areas including education and health. The minister and his team also need to consider how much revenue the country is likely to receive, to cover this spending.

The government's revenue comes mainly from taxes. If there is insufficient revenue, the government will need to borrow money to make up the difference or the country's spending will need to be reduced. So taxes play a vital role in a government's ability to meet the needs of its citizens.

Government revenue comes from a wide range of taxes, but by far the most significant taxes, in other words the taxes that raise the most revenue, are personal and corporate (or company) income tax, and value added tax (or VAT). That they are the most significant sources of revenue of government means that they are also the most significant taxes for taxpayers, and so most of your studies in tax are likely to focus on income tax and VAT.

The main difference between income tax and VAT is that income tax is a direct tax, while VAT is an indirect tax. A direct tax is a tax on a person or entity, whereas an indirect tax is a tax on a transaction. Other examples of direct taxes are estate duty, dividends tax, turnover tax, and donations tax. While other examples of indirect taxes include transfer duty, security transfers tax and customs and excise duty.

Because taxes are so significant to both government and taxpayers, the rules used to determine the amount of each tax owed, are very important. We refer to these rules as legislation and it is the job of the Legislature to set and amend legislation. Parliament is the legislative authority of South Africa and has delegated the responsibility to make tax laws for the country to National Treasury.



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In setting those rules, the legislature must take many things into account, but it is generally accepted that good tax legislation will achieve four goals:

1. The first is equity, which means that everyone ought to pay taxes in proportion to their income
2. The second is certainty, which means that taxpayers (or potential taxpayers) should be able to know in advance what the tax consequences of any activity will be
3. The third is convenience, which means that it should be as easy as possible for taxpayers (or potential taxpayers) to pay their tax
4. And finally, economy, which means the cost of administering the tax should be kept as low as possible

Each type of tax has its own legislation that determines how that specific tax is applied. For example, income tax has the Income Tax Act, and VAT has the VAT Act. During your tax studies, you will need to become familiar with each different tax act in order to understand how to calculate each tax. The legislature is constantly evaluating whether the rules in each act are achieving what they are supposed to achieve, or if they could work better. This means that the acts change every now and then.

For example, in April 2012, Secondary Tax on Companies (or STC) was abolished and Dividends Tax was introduced. As students and accountants, you will need to stay up-to-date with the latest amendments to tax acts, so that your knowledge remains current and you are able to apply the acts correctly.

The responsibility for administering taxes in South Africa belongs to the South African Revenue Service, or SARS. SARS collects information from taxpayers and, based on the legislation that applies to that tax, determines how much tax they must pay. The process of determining or calculating how much tax is owed is called assessment.

Remember, one of the goals of tax legislation is certainty. SARS and the taxpayer should therefore both be able to understand how to apply the relevant legislation, and should agree on the outcome of SARS' assessment. Most of the time this does happen. However, given the amount of legislation, how complicated some transactions are and how much money could be owed, SARS and taxpayers do not always agree.

So if a taxpayer is unhappy with an assessment from SARS, they can decide to appeal the assessment. In the appeal to SARS, the taxpayer explains why they disagree and SARS will either accept or reject the appeal. Assume SARS rejects the appeal and the taxpayer continues to disagree with how SARS interpreted the relevant Act or how it has been applied to a particular transaction. The taxpayer could choose to take the dispute to court. The court will then decide how the legislation should be interpreted or applied to the transaction.

Before going to court, however, it is useful to find out whether a similar issue has already been taken to court, and if so, what the judgment (or decision) in that dispute was. We refer to past decisions of the courts as precedent. Precedent is important because if a similar issue has already been taken to court it is likely that the outcome will be the same as the precedent already set.



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It may then not make sense to go to court. Remember, if the taxpayer loses the court case, they will have to pay the costs of the court case. However, if the issue is new or if it is not clear whether the issue is similar enough to a previous issue SARS and the taxpayer may decide to proceed to court.

There are four courts that can be approached. These are ranked in order of authority. The first court is the Tax Board. Since SARS' decision on any appeal is final, the taxpayer would need to appeal this decision with the Tax Board. It is important to note that while SARS has the final say with respect to the initial assessment decision, the courts could overturn this decision. Either SARS or the taxpayer could then decide to take the issue to a higher court of appeal.

After obtaining a decision from the Tax Board, the unsuccessful party (either SARS or the taxpayer) may appeal to the Tax Court, which may either uphold or overturn the decision of the Tax Board. The unsuccessful party in the Tax Court may then appeal to the High Court, and finally to the Supreme Court of Appeal.

Since no law in South Africa can be considered to be unconstitutional, it may even be possible to appeal to the Constitutional Court of South Africa if a party believes that the court's interpretation of the legislation violates the constitution.

So, as an accountant, it is important for us to be familiar with the precedents established by past tax cases, because they tell us how the legislation could be interpreted and applied. Remember, tax is important to everyone in the country. Almost everyone is a taxpayer; either through income tax or VAT and so contributes to the revenue of the country. As an accountant your role will also include ensuring that your clients are assisted in making the correct tax decisions in a way that will benefit both them and the economy.

Thanks for watching.