

PARLIAMENTARY NEWSWATCH

Keeping Business Informed.

Volume 3

Issue 7

Date 29 July 2011

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BUSA
BUSINESS UNITY SOUTH AFRICA

Parliamentary Newswatch

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NOW



Third Parliamentary Term

Parliament's third term began this week.

The term is set to run from 26 July to 23 September.

Medium Term Budget Policy Statement 2011

The Finance Minister's 2011 Medium Term Budget Policy Statement (MTBPS) is scheduled for 25 October 2011. Billed as a "mini budget" the MTBPS will provide early insights on what to expect in the Minister's 2012 Budget Speech.

Tax Administration Bill

The Tax Administration Bill has been tabled in Parliament. The Bill is one part of the rewrite of fiscal legislation in South Africa that is currently under way.

Public hearings have been tentatively scheduled by the Finance Standing Committee for 16-19 August 2011.

Superior Courts Bill

The Justice Portfolio Committee is scheduled to hold public hearings on the Superior Courts Bill [B7-2011] and Constitution Seventeenth Amendment [B6-2011] on Wednesday, 3 August.

BUSA has submitted written comments and will appear before the Committee on Wednesday to present its submission which focusses on aspects of the proposed legislation relating to the Labour Courts.

Protection of Personal Information Bill

The Justice Committee has yet to schedule further meetings on the Bill.



Walmart/Massmart MERGER

BUSA speaks for SA business at
parliamentary hearings on the
proposed merger

BUSA's Acting Executive Director for Economic Policy, Mr Coenraad Bezuidenhout, presented a submission from Business on the proposed Walmart/Massmart merger to Parliament's Portfolio Committee on Economic Development on Tuesday, 19 July.

The Committee had called for the hearings due to public interest in the matter, but were advised on the day of the hearings to limit their enquiry to the greater significance of the merger, as government was current involved in a court matter which rendered details of the merger *sub judice*.

BUSA's submission noted the following:

A pragmatic decision

BUSA views the Competition Tribunal's decision as being a pragmatic solution to a complex scenario. The announcement that the merger had been approved with conditions on local procurement, retrenchments and the recognition of unions represented a compromise that should be acceptable to the parties involved.

Improving competition

BUSA believes that overall the acquisition will serve to increase competition in the retail sector, and is therefore in line with provisions in the New Growth Path that seek to heighten competition in the local economy.

Protecting local manufacturers

A significant concern during the consideration of the merger had been the protection of local industries. This was a concern shared by BUSA, and one which it actively pursues it in other forums, including engagements on the National Growth Path and the Industrial Policy Action Programme.

Investor certainty

BUSA emphasised that the regulations governing foreign investment of any type should be clear, predictable and transparent, with timelines kept as short and certain as possible. The process relating to the Walmart/Massmart merger was viewed as less than ideal, particularly as South Africa needed to become a favoured destination for foreign investment in order to boost economic growth.



PUBLIC HEARINGS ON TAX

BUSA delivers its final submission on the **Tax Laws Amendment Bill, 2011**

BUSA submitted its final submission on the Taxation Laws Amendment Bills, 2011 to Parliament earlier this month. The submission met with relative success, particularly with regard to recommendations on anti-avoidance amendments relating to the suspension of intra-group rollovers (section 45).

The final submission included the following comments on specific provisions of the Bill:

Small Business: micro business turnover tax relief

The turnover tax system contemplated in the Bill seeks to encourage the informal sector and other SMMEs to enter the tax system by lowering barriers to entry associated with the standard tax system. The provision would potentially apply to businesses with an annual turnover of up to R1 million. While recognising the provision as a mechanism to provide turnover tax relief for micro businesses, BUSA noted that the take-up had not been encouraging. Business believes that the mechanism would be more effective if it were not delinked from VAT.

Anti-avoidance: suspension of intra-group rollovers

Section 45 allows for rollover relief when assets are transferred between members of the same group of companies in exchange for the issue of intra-group shares or of intra-group debt.

BUSA advised against the suspension of s45 on the basis that the removal of the section would negatively impact on a large number of transactions utilising section 45; the resultant uncertainty would likely cause a negative impact on investment. In addition, its removal might negatively impact on a significant portion of BEE transactions that are conducted under s45.

BUSA recommended that the effective date of the amendment of s45 be postponed to some reasonable future date to enable taxpayers to conclude and implement their transactions. BUSA further suggested that the provisions of s45 should merely be amended to exclude the specific transactions that were of concern to SARS, i.e. transactions where associated debt would be in excess of a specified percentage or where associated debt would result in interest payable to a non-resident or exempt entity.

The Minister later in the day announced a reprieve for compliant BEE transactions.



Weakening the RAND

IS GOVERNMENT REVERSING ITS POSITION ON DEVALUING THE RAND?

A Member of Parliament recently posed the following question to the Minister of Finance: "Whether... government is considering interventions to weaken the currency; if not, what is the position in this regard..?"

In his written reply Minister Gordhan outlined interventions that had been made to "support a more competitive exchange rate", including the relaxation of exchange controls and R80.8 billion worth of government assistance provided to the SA Reserve Bank for the purchase of foreign exchange.

He noted that since the start of 2011, the rand had weakened by 6.4% against a trade-weighted basket of currencies and 2.6% against the dollar, suggesting that policy measures had helped to prevent further nominal appreciation despite aggregate capital flows having remained positive.

G-20 Impact

The volatility of global capital flows and exchange rates since the financial crisis had prompted intense discussion between members of the G-20 on factors driving capital flows to emerging markets and how they should be managed.

At the Seoul Leaders' Summit in November 2010, G-20 members had agreed to refrain from competitive devaluations of currencies, which would be detrimental to the overall stability of the global economy. To support this aim, the IMF had proposed a set of guidelines to prevent so-called "currency wars". The IMF guidelines suggested that countries should only consider imposing controls if the exchange rate is overvalued relative to fundamentals and if other policy options, such as reserve accumulation and tighter fiscal policy, were not possible.

“We recognise, furthermore, that the value of the rand is a critical challenge in our growth strategy.”

Minister Pravin Gordhan
Medium Term Budget Policy Statement,
Parliament, October 2010

Exchange history for \$1 (US dollar):



1-year minimum	R6.57 (2011-04-29 3 months ago)
1-year maximum	R7.38 (2010-08-31 11 months ago)

Source: wolframalpha.com

Value of a strong rand

In his response, Minister Gordhan concluded that the experience of other countries had shown that no policy measures were a substitute for improving the underlying competitiveness of our exports through improvements in productivity.

He added that it was important to recognise the beneficial effects of the strong rand over past months, citing increases in the petrol price as an example: if the rand were to weaken to R8/US\$ and the oil price rose back to US\$125/bbl, the domestic petrol price would rise above R11/litre. This would impact negatively on household spending power, increase inflation and ultimately result in higher interest rates, which would reduce economic growth.

National Treasury would continue to monitor international and domestic factors affecting the rand, and design appropriate policy responses when required.

Email bpo@busa.org.za for a copy of the full reply