

TAX INCENTIVES TO STIMULATE ECONOMIC GROWTH IN SOUTH AFRICA

Mini dissertation by

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ABSTRACT

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The current ongoing economic downturn commenced in December 2007 and was largely caused by the collapse of the housing and banking markets in the United States of America and Europe. Governments and central banks of various countries responded to the economic crisis by introducing *inter alia* the reduction of interest rates to unprecedented levels. However, credit conditions remain tight whilst consumer demand and employment in many countries are still deteriorating. Therefore, the International Monetary Fund called for fiscal stimulus in as many countries as possible in an effort to stimulate economic growth. During April 2009 the Servcorp International Business Confidence Survey was conducted to identify the top 10 countries perceived to be surviving the current economic crisis the best. This led to the core research question: did these countries implement fiscal stimulus packages in an effort to stimulate economic growth and should South Africa consider implementing similar tax incentives? The main objective of the research study was to critically analyse the fiscal stimulus packages implemented by the top three countries and to identify possible tax incentives that could be implemented by South Africa in an effort to stimulate economic growth. It was found that the top three countries implemented tax incentives that mainly focused on the retail, export, housing and vehicle sectors of the economy. The main conclusions of the research study were that the tax incentives introduced by the top three countries were effective to support economic growth. It was therefore recommended that South Africa consider similar tax incentives.

OPSOMMING

BELASTINGAANSPORINGS OM EKONOMIESE GROEI AAN TE MOEDIG IN SUID-AFRIKA

deur

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Die huidige ekonomiese afswaai het in Desember 2007 begin en was hoofsaaklik veroorsaak deur die ineenstorting van die eiendoms- en bank sektore in die Verenigde State van Amerika en Europa. Verskeie lande se regerings en sentrale banke het op die ekonomiese krisis gereageer deur onder andere rentekoerse te verlaag tot buitengewone lae vlakke. Kredietverlening is steeds knap terwyl verbruikersaanvraag en werksgeleenthede in baie lande steed agteruit gaan. Daarom het die Internasionale Monetêre Fonds 'n oproep gedoen dat soveel lande as moontlik fiskale aansporingspakkette sal implementeer in 'n poging om ekonomiese groei aan te wakker. Gedurende April 2009 het Servcorp 'n internasionale besigheidsvertroue peiling onderneem om die top 10 lande te identifiseer wat die huidige ekonomiese krisis die beste deurstaan. Dit het gelei tot die kernvraag: het hierdie lande fiskale aansporingspakket geïmplementeer om sodoende ekonomiese groei aan te wakker en moet Suid-Afrika oorweeg om soortgelyke aansporingspakkette te implementeer? Die hoof doel van die navorsingstudie was om die aansporingspakkette wat die top drie lande geïmplementeer het krities te analiseer en moontlike belastingaansporings te identifiseer wat Suid-Afrika kan implementeer om ekonomiese groei aan te wakker. Die top drie lande se belastingaansporings het gefokus op die kleinhandel-, uitvoer-, eiendoms- en motorsektore. Die navorsingstudie se hoof/oorwegende gevolgtrekkings was dat belastingaansporings soos ingestel deur bogeneemde top drie lande wel effektief was om ekonomiese groei te stimuleer en gevolglik die voorgestel gemaak dat Suid-Afrika soortgelyke belastingaansporings moet oorweeg.

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CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 BACKGROUND

It is said: *"When Uncle Sam sneezes, the whole world catches a cold."* The United States of America ("USA") is the largest economy in the world and any economic downturn in the USA directly affects countries over the world.

The National Bureau of Economic Research ("NBER") in the USA determines the beginning and ending dates of economic downturns. The NBER defines a recession as follows: *"...a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales."*

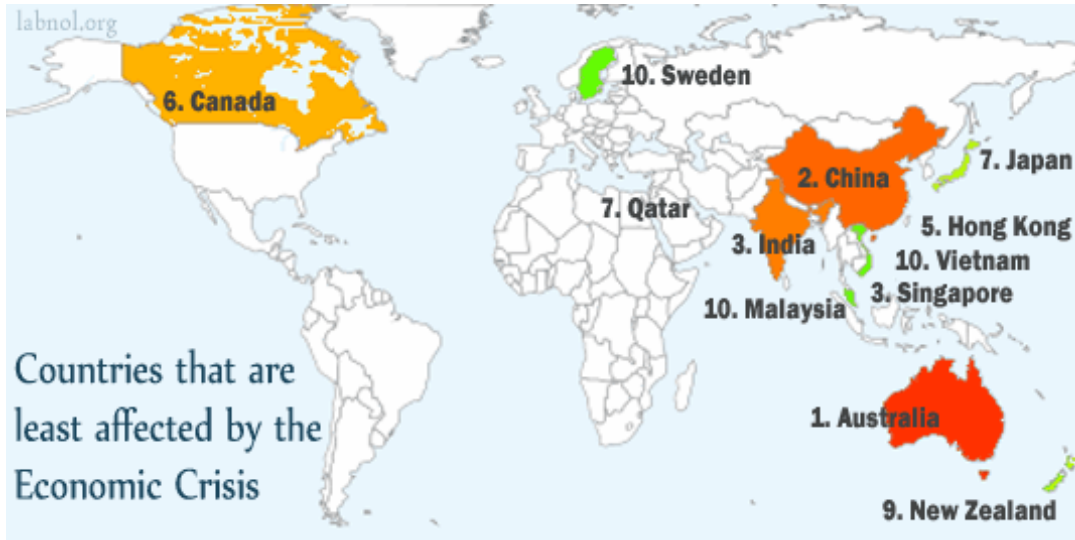
According to the NBER website the current ongoing economic downturn, known as the global financial crisis, commenced in December 2007 and was caused by the collapse of the housing and banking markets in the USA and Europe.

In the International Monetary Fund ("IMF") Staff Position Note SPN/09/03 Freedman, Kumkof, Laxton and Lee (2009:2) indicated that governments and central banks have responded to the global financial crisis by introducing a number of measures to deal with liquidity and solvency problems, including the reduction of interest rates to unprecedented levels.

However, credit conditions remain tight whilst consumer demand and employment in many countries are still deteriorating. The IMF has called for fiscal stimulus (including tax incentives) in as many countries as possible in an effort to stimulate economic growth as limited scope for further stimulus through monetary policy exist (Freedman *et al*).

During April 2009 the Servcorp International Business Confidence Survey was conducted. The survey asked 7 500 international businesspeople from more than 24 nations to identify which countries they believe are surviving the global financial crisis the best. The top 10 countries perceived to be surviving the economic crisis the best are illustrated by Figure 1 below:

Figure 1: Top 10 countries perceived to be surviving the economic crisis the best



Source: www.servcorp.net

The top three countries perceived to be surviving the global financial crisis the best are Australia, followed by China and joint third, India and Singapore.

1.2 CORE RESEARCH QUESTION

This study is guided by the following core research question:

Should South Africa consider implementing tax incentives similar than those implemented by the top three countries from the survey?

1.3 RESEARCH OBJECTIVES

The study was guided by the following research objectives:

- Critically analyse the tax incentives implemented by Australia, China and Singapore, the top three countries from the survey.
- Critically analyse the effect of the tax incentives implemented on the economical climate of the three countries.
- Identify possible tax incentives that South Africa has not yet considered implementing.

1.4 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY

An extensive search of leading electronic journal databases and the World Wide Web suggest that limited academic research is available that explore the effect of fiscal stimulus packages (including tax incentives) during a time of economic downturn on economic growth.

The majority of these research studies were published prior to the global financial crisis and may therefore be outdated and irrelevant to the current economic environment. Current research studies that do address the effect of tax incentives introduced during the current economic downturn mainly focus on the circumstances in the USA and member countries of the European Union.

In light of the above the aim of the proposed study will be to present a research study that is relevant to the current economic climate. Users of this literature study will become more aware and gain an understanding of the tax incentives introduced in Australia, China and Singapore. Focus will also be placed on the impact of these tax incentives on economic growth of the three countries. This could move the South African tax authority to consider implementation of similar tax incentives.

A further search of the World Wide Web found that South Korea has reintroduced fiscal stimulus measures used in the financial meltdown of the late 1990's in a bid to prevent a recession. The proposed research study could also be used as a guide during future economic downturns to merit the implementation of tax incentives in an effort to hold off a recession.

1.5 DELIMITATIONS AND ASSUMPTIONS

The aim of the study is to critically analyse the tax incentives implemented by Australia, China and Singapore and to explore whether the implementation of similar tax incentives in South Africa would stimulate economic growth.

1.5.1 Delimitations

The proposed study will be limited by the following:

- Australia, China and Singapore will be the main focus of this research study as these countries are perceived to be surviving the economic crisis the best.
- Focus will be on the key tax incentives implemented by Australia, China and Singapore during the 2008/09 and 2009/10 tax years.
- The effects of the introduced tax incentives on Australia's, China's and Singapore's economic growth will be evaluated from the first quarter of 2008 through the fourth quarter of 2009 provided the data is available.
- Although India and Singapore are tied as the third country, the tax incentives implemented in Singapore will be investigated. The lack of data and information relating to tax incentives implemented in India is the main reason for focussing on Singapore.

1.5.2 Assumptions

This study will be based on the following assumptions:

- Governments continue to implement tax incentives during a recession in an effort to stimulate economic growth.
- Economic growth in Australia, China and Singapore will be measured in terms of Gross Domestic Product (“GDP”), vehicle sales, property sales, unemployment rates and other data found to be relevant and have a direct or indirect relation to the tax incentives implemented.

1.6 DEFINITION OF KEY TERMS

The study involves a number of key terms, namely fiscal policy, monetary policy, recession and tax incentive. These terms are defined as follows for purposes of this study:

Bear Market: A prolonged period in which investment prices fall, accompanied by widespread investor pessimism.

Fiscal Policy: The set of principles and decisions of a government in setting the level of government spending and how the spending would be funded. Funding is usually generated through levying taxes. Fiscal policy is the deliberate change in government spending, government borrowing or taxes to stimulate or slow down the economy. This is done by increasing the total demand for goods and services in times of high unemployment and economic slowdown and to cultivate a slowdown when excessive demand has pushed production to its physical limits and threatens to bring on excessive inflation.

Gross Domestic Product: The total market value of all final goods and services produced in a country in a given year.

Monetary Policy: The process by which the government or central bank of a country controls the supply and availability of money, as well as the cost of money (i.e. interest rate) to attain growth and stability of the economy.

Recession: A significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.

Tax Incentive: A deduction, exclusion, or exemption from a tax liability, offered as an incentive to engage in a specified activity (such as investment in capital goods) for a certain period.

Table 1 below provides a list of the abbreviations used in this document.

Table 1: Abbreviations used in this document

Abbreviation	Meaning
AUD	Australian Dollar
CNY	Chinese Yuan
GDP	Gross Domestic Product
IMF	International Monetary Fund
NBER	National Bureau of Economic Research
SGD	Singapore Dollar
USA	United States of America
ZAR	South African Rand

1.7 LITERATURE REVIEW

The literature review aims to guide the reader through the thought process followed and to provide the opportunity to see all aspects of the research project in perspective.

In order to achieve this, the following questions and statements are explored:

- Is there any literature available that indicates a link between USA share market declines (bear markets) and USA recessions?

The USA is the largest economy in the world according to the World Bank (2009) and if this link exists, it will be possible to conclude that global economic downturn also ensued during the USA bear markets.

The next step will be to identify three significant bear markets and determine:

- The availability of literature indicating that special tax incentives were introduced during bear markets in an effort to stimulate economic growth.

The review of the above-mentioned literature will aim to conclude that, during times of economic downturn, governments introduce tax incentives through fiscal policy changes in an effort to stimulate economic growth.

Furthermore available literature that detail the tax incentives that the Australian, Singapore and Chinese governments respectively have implemented during the 2008 to 2010 tax years in an effort to stimulate economic growth will be studied. At this stage, the effect of the tax incentives on economic growth will not be addressed, as these results will be gathered during the research phase.

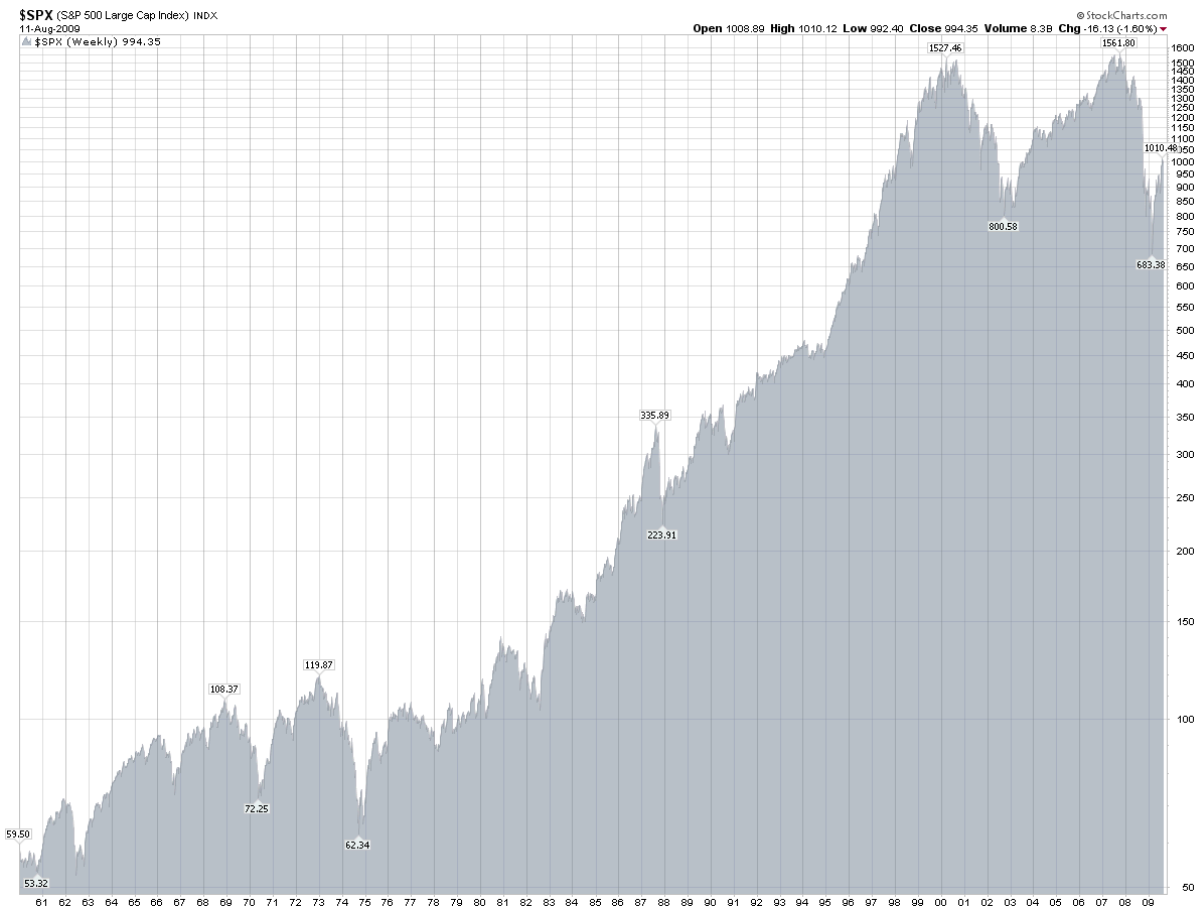
1.7.1 Are share markets a predictor of USA recessions?

The main purpose of a share market is to provide a market place where buyers and sellers exchange securities (company shares). However, economists are of the view that the share market is also an indicator of the health of the USA economy (Amado, 2009). The share market reflects the level of confidence that investors have in the earning potential of a company.

It follows that a sudden loss in investor confidence results in share market decline and uncertainty of the underlying economy. Should confidence not be restored it could eventually lead to a slowdown in the global economy.

The S&P 500 Index (“the Index”) is the most commonly used benchmark of the USA share market and so the USA economy. To determine whether the Index is a predictor of USA recessions, the trend of the S&P 500 was analysed from 1960 to 11 August 2009. Table 2 indicates the trend of the S&P 500 from 1960 to 11 August 2009.

Table 2: Trend of the S&P 500 Index from 1960 to 11 August 2009



Source: www.Stockcharts.com

It can be noticed from the chart that bear markets occurred approximately in 1961, 1970, 1974, 1990, 2001 and 2008.

Economists have been analysing the stock markets to determine whether a link exists between the movements in stock markets and economic cycles. The best example of such an analysis is noted by Du Plessis (2008), who cited that Bangalore analysed the leading and lagging properties of the Index to determine whether any connection exists between the movement of the Index and economic cycles. Table 3 below indicates the business cycles according to the NBER and the corresponding peak and through periods of the Index.

Table 3: Percentage change of the S&P 500 Index during a recession

S&P 500 Index – Peaks and Troughs*

Business Cycle		Peak of S&P 500		Lead(+)/Lag (-1) months	Trough of S&P 500		Lead (+)/Lag (-1) months	S&P 500 Peak to Trough % change
Peak	Trough	Date	Level		Date	Level		
Jul-53	May-54	Jan-53	26.18	(+8)	Sep-53	23.27	(+8)	-11.12%
Aug-57	Apr-58	Jul-57	48.51	(+1)	Dec-57	40.33	(+4)	-16.86%
Apr-60	Feb-61	Dec-59	59.06	(+4)	Oct-60	53.73	(+4)	-9.02%
Dec-69	Nov-70	May-69	104.62	(+7)	Jun-70	75.59	(+5)	-27.75%
Nov-73	Mar-75	Jan-73	118.42	(+10)	Dec-74	67.07	(+3)	-43.36%
Jan-80	Jul-80	Feb-80	115.34	(-1)	Apr-80	102.97	(+3)	-10.72%
Jul-81	Nov-82	Apr-81	134.43	(+3)	Jul-82	109.38	(+3)	-18.63%
Jul-90	Mar-91	Jun-90	380.35	(+1)	Oct-90	307.12	(+5)	-14.77%
Mar-01	Nov-01	Aug-00	1485.46	(+7)	Sep-01	1044.64	(+2)	-29.68%
		Oct-07	1539.66		Jan. 2-4, 2008	1435.32		-8.76%
							Decline - Average	-20.21%
							Decline - Median	-16.86%

* The monthly average value of the S&P 500 Index is used in the analysis.

Source: Asha Bangalore, Northern Trust – Daily Global Commentary, January 7, 2008.

The major conclusion obtained from Bangalore’s research is that the Index is a leading indicator of economic cycles. Since 1953, the Index has always peaked before the peak of an economic cycle, as identified by the NBER, with the 1980 economic cycle being the only exception. The Index has established a trough prior to the end of a recession without exception.

The above-mentioned literature is therefore relied upon to support the assumption that the share market is a truthful predictor of USA and subsequent global recessions.

1.7.2 Did tax incentives introduced during previous recession periods stimulate economic growth?

It is now possible to identify whether additional or special tax incentives were introduced to stimulate growth during the periods of recession. Three business cycles were selected from Table 3, being the following:

- April 1960 to February 1961: representing the smallest percentage change of the Index.
- November 1973 to March 1975: representing the biggest percentage change of the Index.
- March 2001 to November 2001: representing the recession prior to the current economic downturn.

The three business cycles will be analysed in more detail to determine whether governments introduced special or additional tax incentives in an effort to stimulate economic growth.

April 1960 to February 1961

As the 1960 USA presidential election campaign commenced, the 1960-61 recession began and the newly elected president vowed to increase economic growth and decrease the unemployment rate. President J.F. Kennedy (1961) presented an economic growth and recovery package (i.e. fiscal stimulus package) to the USA Congress.

The stimulus package included:

- Reduction of individual income tax rates.
- An investment tax incentive in the form of a tax credit for businesses acquiring new plant and equipment.
- Reform of capital gains tax.

At the same time Bacon and Chastain (1961:5-13) studied the relationship between general tax incentives and economic growth. Their research also questioned whether tax incentives introduced should be in the form of a tax credit or a tax deduction. This study was limited to the state of Michigan in the USA. It was also noted that the rest of the USA states, Sweden and the United Kingdom used accelerated depreciation or capital allowances to encourage investment in plant and equipment.

It was concluded that tax incentives would result in a direct economical increase in Michigan but that tax incentives represent only one of many offerings governments could use in an attempt to increase economic growth. This study did not research the tax incentives introduced in Sweden and the United Kingdom in broader detail and therefore the scope of this research study is limited.

No literature is available outlining the tax incentives introduced in South Africa, Australia, China or Singapore during this recession.

November 1973 to March 1975

Several factors contributed to the recession of the 1970's: the USA abandoned the gold standard and printed more money, resulting in an oversupply of money and inflation; oil prices quadrupled as the Organisation of Petroleum-Exporting Countries (OPEC) reduced their supply of petroleum and the USA President, Nixon, introduced wage-price controls.

According to the USA Tax Policy Centre (2009), the following fiscal stimulus incentives were introduced in the Tax Reduction Act of 1975/6:

- Taxpayers were entitled to a 10 per cent rebate on the 1974 tax liability, capped at US\$200.
- Taxpayers and each dependent were entitled to a general tax credit of US\$30.
- The Investment Tax Credit was temporarily increased to 10 per cent through 1976.
- Small Business tax rates were temporarily lowered.

- A tax credit available to households who purchased a newly constructed residential property in 1975. The tax credit was 5 per cent of the purchase price with a limit of US\$2 000.

The *Economic downturn and the housing market case study* (not dated) found that nearly 535 000 taxpayers claimed the tax credit available to households purchasing a newly constructed residential property. This assisted construction companies to clear their housing inventory. The introduction of the housing tax credit resulted in GDP growth of above 5 per cent and the unemployment rate started to decrease in 1976.

No further literature could be obtained that addressed the impact of fiscal policies implemented on economic growth in other countries during the 1970s recession.

March 2001 to November 2001

The recession of 2001 was caused by the collapse of internet stocks and accounting scandals. According to the USA Tax Policy Centre (2009), the following fiscal stimulus incentives were introduced in the Economic Growth and Tax Reconciliation Act of 2001 and the Job Creation and Worker Assistance Act of 2002:

- Individual tax rate reductions and the introduction of a new tax rate on the first US\$12 000 for a married couple.
- The child tax credit was increased.
- An additional 30 per cent depreciation allowance when qualifying property was purchased.
- The provision of up to 13 weeks' temporary unemployment benefits for eligible workers.
- The extension of certain expiring provisions i.e. credits for the purchase of electric vehicles, extended exceptions for financing income.

The USA Congress Joint Economic Committee (2007) studied the effect of the changes to the tax legislation and concluded that this played a key role in the turnaround of the USA economy.

The Australian government announced the following fiscal policy changes in the 2001/2 Budget:

- A full input tax credit for motor vehicles purchased before 23 May 2001 in an effort to boost motor vehicle sales.
- The company tax rate was lowered from 34 per cent to 30 per cent.

In Singapore the 2002 Budget contained the following fiscal policies:

- Reduction of the corporate tax rate from 24.5 per cent to 22 per cent.
- Tax deductions of approved research and development expenditure.
- The top marginal individual income tax rate was lowered.
- Reduction of motor vehicle taxes.

The 2002 South African Budget indicated that growth slowed to 2.2 per cent and introduced the following tax incentives:

- Individual income tax rates were lowered.
- The introduction of accelerated depreciation allowances encouraged business investment.
- Small business tax relief was extended in an effort to encourage entrepreneurs to step into the economical sphere.

Kennedy, Luu, Morling and Yeaman (2004:36) focused on the important role that fiscal policy plays and concluded that the effective use of fiscal policy have far-reaching effects on economic growth.

From the literature review conducted it was found that specific tax incentives were indeed introduced during recession times. However, the available literature focuses primarily on USA tax incentives introduced in an effort to stimulate economic growth. Very limited literature is available relating to tax incentives introduced in South Africa, Australia, China and Singapore during times of recession. Available literature has, to date, not been able to clearly determine whether tax incentives in fact stimulated economic growth.

1.7.3 Tax incentives introduced during the current recession

With the onset of the current global financial crisis governments responded by lowering interest rates. The USA, for example, took extreme monetary measures and lowered the Central Bank Overnight Rate from 5.25 per cent (rate at start of 2007) to 0.25 per cent in December 2008 (Tradingeconomics.com, 2010).

According to Spilimbergo, Symansky, Blanchard and Cottatelli (2008:1-3) the IMF noted that, although many countries have introduced monetary policy incentives (i.e. lowering interest rates), room for further interest rate decreases was limited. Although the literature relating to previous economic downturns indicates that tax incentives were introduced during periods of recession the current economic downturn is in a league of its own. The IMF specifically called on governments for a collective approach in introducing sizable fiscal policy changes.

Freedman *et al* noted in IMF Staff Position Note SPN/09/03 (2009:2-3) that the IMF again called on governments to introduce fiscal stimulus packages. This IMF paper also incorporated evidence that the appropriate fiscal stimulus package combined with accommodative monetary policy can have significant positive effects on economic growth. Governments responded to the request from the IMF and literature is available providing details of the tax incentives implemented in *inter alia* Thailand, the United Kingdom, the USA, Poland, Australia, Singapore, China and South Korea. This literature only provides the details of the tax incentives introduced and does not analyse the effect thereof on economic growth.

The literature sources reviewed to determine the details of the tax incentives introduced by Australia, China, Singapore and South Africa are the respective Budgets for the 2008-2010 periods. It was found that these literature sources contain sufficient information to properly identify the tax incentives introduced.

Statistical data is available from various sources, specifically the respective Department of Statistics in Australia, Singapore and China, and it would therefore be possible to identify whether the various tax incentives introduced have met the objective to stimulate economy growth.

1.8 RESEARCH DESIGN AND METHODS

The study was researched through the reviewing of available, relevant literature. Recommendations of the proposed tax incentives to be implemented in South Africa were supported by the application of information gathered on the research topic.

1.9 CONCLUSION

The call for the implementation of fiscal policy incentives to boost economic growth during the current global financial crisis is needed now more than ever. This research study could assist the South African tax authority to identify further tax incentives to be implemented in order to increase economic activity in a country alive with possibilities. The next chapter will present an overview of the economic climate in South Africa as well as the fiscal and monetary policies implemented to date. Chapter 3 will review the tax incentives implemented by Australia and the effect thereof on the relevant economic sectors. Chapter 4 will analyse the tax incentives introduced in China and the impact these tax incentives have had on the Chinese economy. Chapter 5 will review the tax incentives implemented by the Singapore government and how it affected the Singapore economy. Chapter 6 will provide a summary of the tax incentives implemented and recommendations as to which of the tax incentives South Africa might consider implementing in an effort to stimulate economic growth.

CHAPTER 2

SOUTH AFRICA: THE ECONOMIC CLIMATE AND FISCAL POLICY CHANGES INTRODUCED TO DATE

2.1 INTRODUCTION

According to the World Bank (2010), the South African economy seemed well balanced before the onset of the global economic crisis. GDP growth was in excess of 5 per cent between 2004 and 2007 due to strong domestic demand in the construction, services and manufacturing industries. The budget balance was in a surplus in 2007, supported by revenue collection, debt management and fiscal reform.

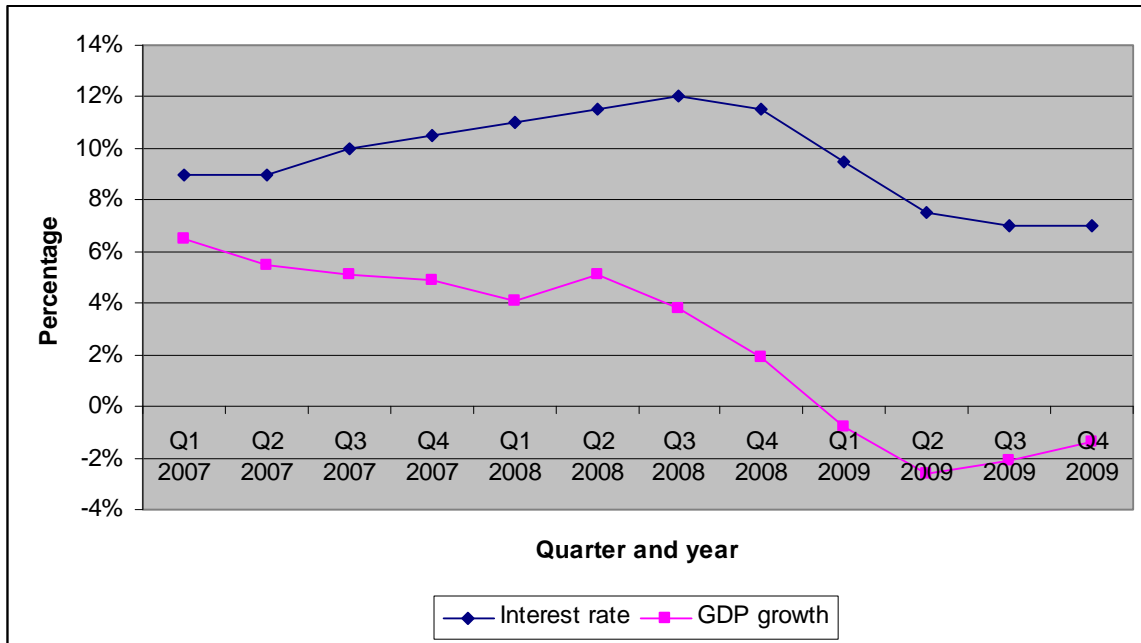
Over the past 15 years South Africa has been able to increase productivity performance and reform its export industry and this resulted in more diversified export market. South African households have enjoyed a period of low interest rates although this changed with the monetary policy changes announced in 2008.

2.2 MONETARY POLICY OVERVIEW: 2007 TO 2009

South Africa recorded a GDP growth rate of 6.5 per cent in the first quarter of 2007. The Central Bank Overnight Rate was 9 per cent and the unemployment rate was at 23 per cent. In an effort to cool consumer spending the South African Reserve Bank's Monetary Policy Committee announced various interest rate increases during 2008.

The following figure provides an overview of the monetary policy changes and the economic growth rate in South Africa from 2007 to 2009:

Figure 2: The interest rate and GDP growth rate in South Africa: 2007 to 2009



Source: www.tradingeconomics.com

Interest rates were increased from 9 per cent in 2007 to 12 per cent in 2008. As illustrated above, with the hike in interest rates followed a decline in the economic growth rate from 5.1 per cent in the second quarter of 2008 to 1.9 per cent in the fourth quarter of 2008. Following the sharp decline in the economic growth rate, interest rates were lowered to 7 per cent in 2009, a level last seen in 2006.

Even with the drastic monetary policy changes, South Africa recorded negative average GDP growth of 1.73 per cent during 2009, compared with a positive average GDP growth rate of 5.58 per cent during 2006. The decrease in the economic output affected the unemployment figures with the unemployment rate reaching its highest level of 24.5 per cent in the third quarter of 2009 (Tradingeconomics.com, 2010).

2.3 FISCAL POLICY CHANGES INTRODUCED

By analysing the monetary policy changes implemented it can be seen that the lowering of interest rates did not have the desired effect on the South African economic climate. Focus will now be placed on the fiscal policy changes to determine 1) whether South Africa has implemented special tax incentives and 2) whether these tax incentives contributed to economic growth.

The 2009 Budget was announced on 11 February 2009 and focused mainly on five principles (National Treasury, 2009):

- Protecting the poor.
- Sustaining employment growth and expanding training opportunities.
- Building economic capacity and promoting investment.
- Addressing the barriers that limit the fair sharing of opportunities.
- Maintaining a sustainable level of debt to ensure future development is not restricted.

From an incentive point of view, however, the 2009 Budget contained little or no specific encouragement aimed at economic growth during the global financial crisis. Some of the budget highlights included:

- Personal tax relief for individuals through the lowering of personal income tax rates.
- Increases in the fuel levy, plastic bag levy and “sin taxes” (i.e. alcohol, cigarettes and tobacco).
- Reform of the medical scheme contribution and travel allowance legislation.
- Environmental fiscal reform including incentives to purchase energy efficient equipment, taxation of filament light bulbs, emission reduction credits and motor vehicle *ad valorem* excise duties.

The only tax incentive of significance was the additional 15 per cent depreciation allowance on the purchase of energy-efficient equipment which was introduced to encourage companies to invest in energy-efficient equipment (South African Revenue Services, 2009:6-12). The South African tax authorities did not implement specific tax incentives in an effort to stimulate economic or employment growth.

2.4 CONCLUSION

In conclusion it appears that neither the monetary policy nor fiscal policy changes announced during 2008 and 2009 had the desired effect to increase economic and employment growth in South Africa.

The demand for export products coupled with falling commodity prices has worsened the economic outlook for South Africa. Growing global uncertainty has left consumer and business confidence at an all time low, coupled with a reduction in spending. Economic growth was not achieved as South Africa reported an average negative GDP growth rate. Employment growth was also not sustained as the unemployment rate increased resulting in an estimated half a million employees losing their jobs in 2009 (World Bank, 2010).

It is therefore recommended that South Africa consider implementing further fiscal policy incentives in an effort to boost economic and employment growth. Australia, China and Singapore are perceived to be surviving the economic crisis the best and the tax incentives introduced in these countries will be analysed in the chapters to follow. This will provide South Africa with insight on:

- The impact of the tax incentives introduced on economic and/or employment growth in Australia, China and Singapore.
- How South Africa's economic performance compares with Australia, China and Singapore.
- Whether South African should consider implementing similar tax incentives.

The next chapter will analyse the most significant tax incentives introduced by the Australian Government during the 2008 to 2010 fiscal years and the impact these tax incentives had on the economic growth of Australia.

CHAPTER 3

TAX INCENTIVES INTRODUCED IN AUSTRALIA

3.1 INTRODUCTION

According to the Servcorp survey Australia was perceived to be surviving the global financial crisis the best. Over the past two decades Australia has been able to position itself as a global market participant. This was achieved through the removal of various trade barriers, floating the Australian dollar and reforming the taxation system. The government's aim has been fiscal balance and this is largely the reason for accumulating the budget surplus prior to the commencement of the global financial crisis.

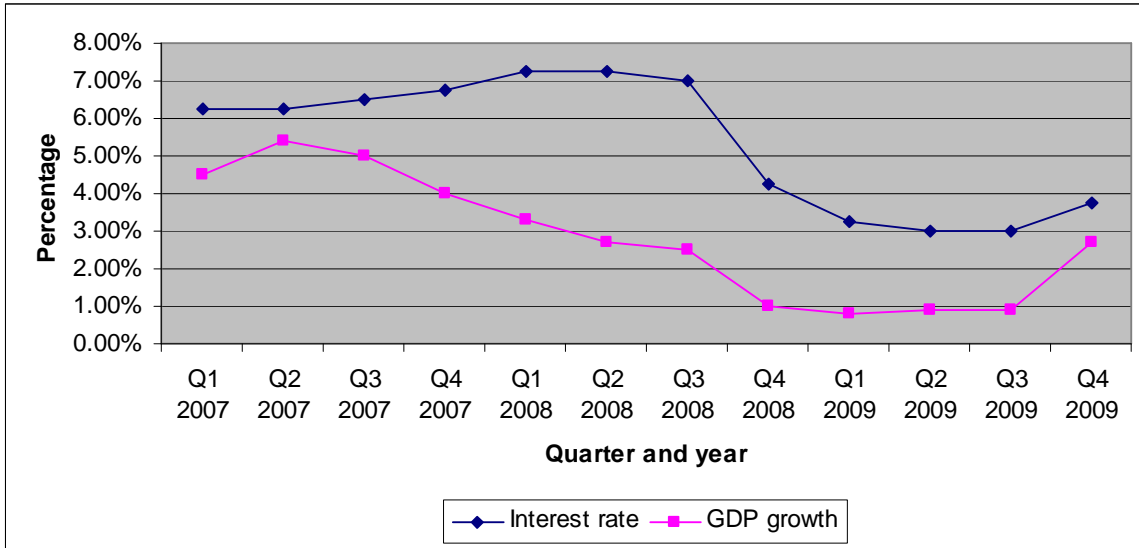
Over the past decade Australia experienced economic expansion as a result of low inflation, a boom in the housing market and increasing demand for raw materials from China. Australia was able to avoid entering a technical recession due to monetary and fiscal stimulus, buoyant export demand and investment from China as well as the strong banking sector (Central Intelligence Agency, 2010).

3.2 MONETARY POLICY OVERVIEW: 2007 TO 2009

Australia recorded average GDP growth of 4.73 per cent during 2007. The first quarter of 2007 saw interest rates in Australia at 6.25 per cent whilst the unemployment rate stood at 4.5 per cent. In an effort to curb rising inflation rates, interest rates were increased during 2008.

Figure 3 indicates the monetary policy changes and the economic growth rate in Australia from 2007 to 2009:

Figure 3: The interest rate and GDP growth rate in Australia: 2007 to 2009



Source: www.tradingeconomics.com

From the data presented in Figure 3 it can be noted that as interest rates increased economic growth started to decrease. Australia reported an average GDP growth rate of 1.33 per cent in 2009, compared with an average GDP growth rate of 2.38 per cent in 2008. In an effort to boost consumer and business confidence interest rates were lowered to 3 per cent in 2009. The unemployment rate increased from a low of 3.9 per cent in February 2008 to a high of 5.8 per cent in October 2009.

In addition to the monetary policy changes introduced, the Australian Government acted at an early stage of the global financial crisis and announced additional fiscal policy incentives, implemented with immediate effect.

3.3 FISCAL POLICY INCENTIVES INTRODUCED

3.3.1 Background

In an effort to weather the global economic crisis, the Australian Government announced various fiscal policy incentives. The first fiscal stimulus package, amounting to AUD10.4 billion, was announced in October 2008 (Oliver, 2008). The second fiscal stimulus package, worth AUD42 billion, was announced in February 2009 (Sharat, 2009).

The fiscal packages announced by the Australian Government focused on *inter alia* supporting lower income families and increasing activity and employment in the infrastructure and construction industries. The three most significant tax incentives introduced were:

- The Tax Bonus for working Australians.
- The First Homeowners Boost.
- The additional capital investment allowance.

These tax incentives and the effect it had on the Australian economy will be addressed separately below.

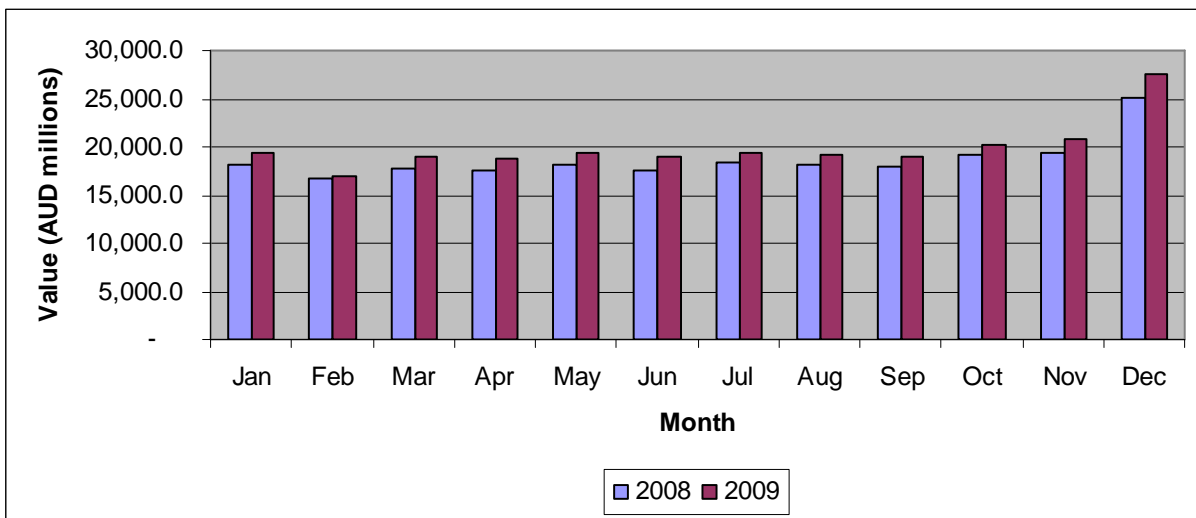
3.3.2 AUD900 Tax Bonus for working Australians

The Australian Government announced the AUD900 Tax Bonus on 12 February 2009 (Mount Gambier & District Lake News. 2009). The bonus was available to Australian tax residents who lodged their 2008 tax returns before 30 June 2009 and who had a net tax liability. Cash payments of the tax bonus were made from April 2009 onwards.

Research was conducted by the Australian National Retailers Association which indicated that 48 per cent of Australians would spend their tax bonus in the retail sector on non-essential items, such as clothing, footwear, white goods and general living expenses (Stanic, 2009).

To determine the impact that the tax incentive had on economic growth the statistical data relating to retail sales in Australia was analysed. Figure 4 represents the total value of retail spending as recorded by the Australian Bureau of Statistics during 2008 and 2009:

Figure 4: Total retail industry sales in Australia: January 2008 to December 2009



Source: Australian Bureau of Statistics. 2009. *Retail Trade Statistical Release 8501.0*. 4 February 2010. Canberra: Australian Bureau of Statistics.

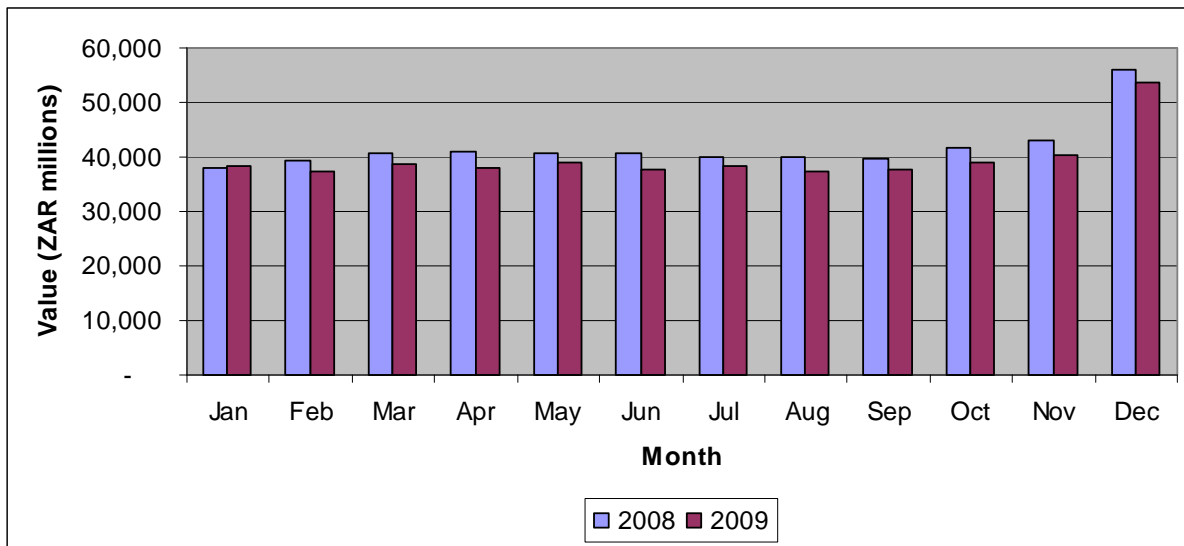
From the data presented in Figure 4 it was noted that retail sales dropped to its lowest point in February 2009. However, after the announcement of the Tax Bonus in February 2009, monthly retail sales have increased by at least 5 per cent every month when compared with the corresponding month of the previous year. Total retail sales for 2008 was AUD224 million, whilst total retail sales totalled AUD237 million in 2009.

It may therefore be concluded that this tax incentive largely contributed to the continued increase in retail sales during 2009.

The performance of the South African retail sector

Australia’s retail sales increased by 6 per cent during 2009. It would be beneficial to ascertain how the South African retail sector performed to determine whether a similar tax incentive should be implemented in South Africa. Figure 5 illustrates the retail sales from January 2008 to December 2009.

Figure 5: Total retail industry sales in South Africa: January 2008 to December 2009



Source: Statistics South Africa. 2009. *Retail trade sales Statistical Release P6242.1*. 17 February 2010. Pretoria: Statistics South Africa, p. 7.

Retail sales in South Africa did not increase during 2009 as evident in the data presented in Figure 5. It was noted that South African retail sales decreased by an average of 5 per cent per month during 2009 when compared to the corresponding month in 2008. Total retail sales for 2008 was ZAR500 million but ended 5 per cent lower at ZAR475 million at the end of 2009.

It follows that retail sales in South Africa did not increase as significantly during 2009 when compared with the statistics of Australian retail spending. South Africa’s retail sector could therefore benefit from the implementation of a similar tax incentive.

3.3.3 First Home Owner Boost

The First Home Owner Grant scheme commenced on 1 July 2000. It entitles eligible applicants to a once off grant of AUD7 000. According to the media release by the Australian Government (2008), a First Home Owner Boost in addition to the First Home Owner Grant was introduced. The Treasurer of the Commonwealth of Australia announced in the Budget Speech (2009) that the main purpose of the First Home Owner Boost was to support more Australian jobs and assist more Australians to enter the housing market for the first time.

The First Home Owner Boost came into operation on 14 October 2008 and was anticipated to end on 30 June 2009. However the First Home Owner Boost was extended in May 2009 for another six months, to end on 31 December 2009. Table 4 provides a summary of the housing grants available to eligible applicants during the stimulus period:

Table 4: Grants available to first home owners during the stimulus period

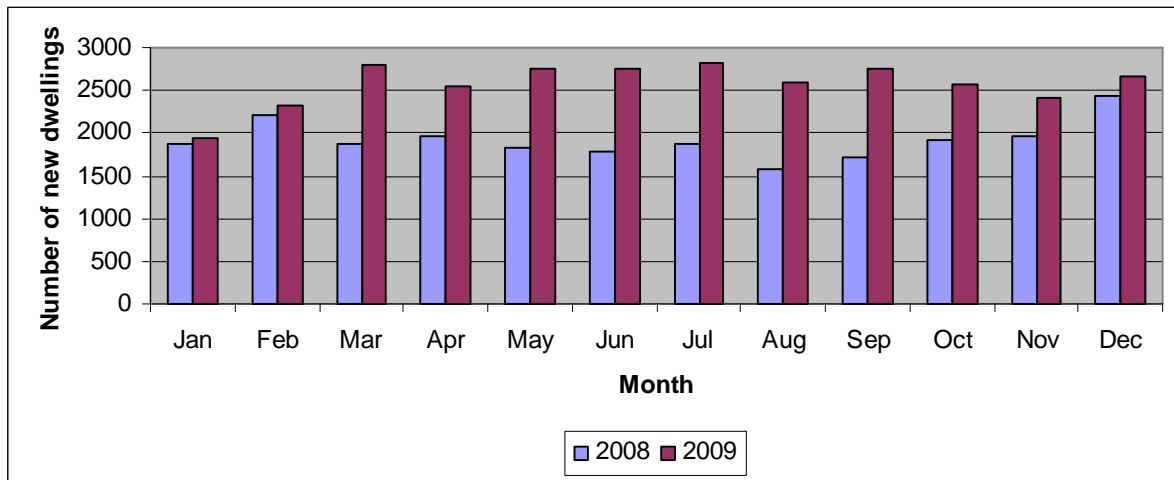
Home Type	Grant available	Contract Date (eligible transaction date)	
		14/10/2009 to 30/09/2009	1/10/2009 to 31/12/2009
Established Residence	First Home Owner Grant	AUD7 000	AUD7 000
	First Home Owner Boost	AUD7 000	AUD3 500
	Total Grant available	AUD14 000	AUD10 500
New Residence	First Home Owner Grant	AUD7 000	AUD7 000
	First Home Owner Boost	AUD14 000	AUD7 000
	Total Grant available	AUD21 000	AUD14 000

The First Homeowner Boost therefore had a direct impact on the growth in the number of new units constructed and the volume of new and established residences sold.

The Australian Bureau of Statistics issues Housing Finance Statistics on a monthly basis. This statistical release indicates the number of new dwellings constructed as well as new and established dwellings purchased and financed by a financial institution.

First time buyers of new dwellings were entitled to a larger grant than the first time buyers of established dwellings. It was therefore anticipated that the number of new dwellings sold would show a larger increase than established dwellings sold. Figure 6 shows the number of new dwellings financed in Australia during 2008 and 2009.

Figure 6: Number of new dwellings financed in Australia: January 2008 to December 2009



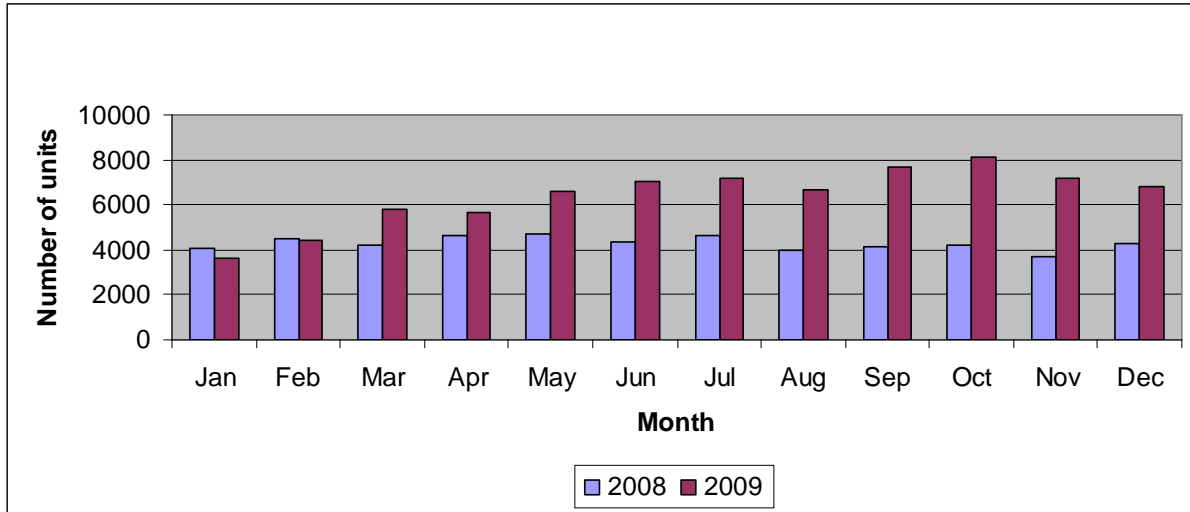
Source: Australian Bureau of Statistics. 2009. *Housing Finance Statistical Release 5609.0*. 10 February 2010. Canberra: Australian Bureau of Statistics.

From the data presented in Figure 6 it can be noted that new dwelling sales decreased to its lowest point in August 2008. After the introduction of the First Home Owners Boost in October 2008 the number of new dwellings sold increased systematically through 2009. A total number of 30 895 new dwellings were sold during 2009. This was 34 per cent more than the 23 026 new dwellings sold during 2008.

It is clear from the above-mentioned data that the First Home Owner Boost was a major drive force behind the significant increase in the number of new dwellings sold.

To further illustrate the impact of the First Home Owner Boost on the building industry Figure 7 shows the number of new dwellings constructed during 2008 and 2009 in Australia.

Figure 7: Number of new dwellings constructed in Australia: January 2008 to December 2009

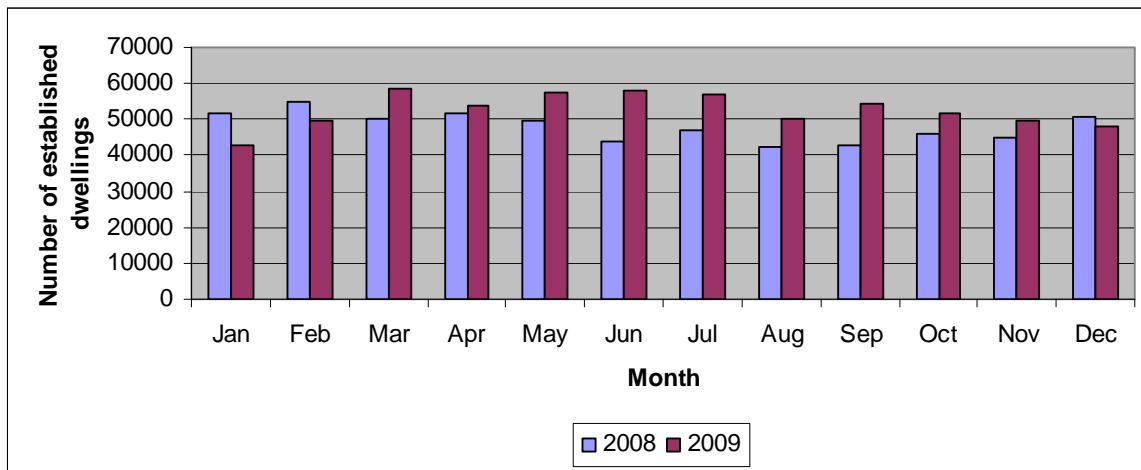


Source: Australian Bureau of Statistics. 2009. *Housing Finance Statistical Release 5609.0*. 10 February 2010. Canberra: Australian Bureau of Statistics.

It is noted from the data shown in Figure 7 that the number of new dwellings constructed in Australia during 2009 has shown a substantial increase. The number of new dwellings constructed in January 2009 fell by 10 per cent on the January 2008 figures. However the number of new dwellings constructed has increased by an average of 62 per cent between March to December 2009 when compared with the corresponding time period in 2008. Construction of new dwellings increased by 50 per cent during 2009 when compared with the number of units constructed during 2008.

The First Home Owners Grant available to buyers of established dwellings was lower than the grant available to buyers of new dwellings. It is therefore anticipated that less established dwellings than new dwellings would be sold. Figure 8 shows the number of established dwellings purchased by way of financial support from a financial institution in Australia during 2008 and 2009.

Figure 8: Number of established dwellings financed in Australia: January 2008 to December 2009



Source: Australian Bureau of Statistics. 2009. *Housing Finance Statistical Release 5609.0*. 10 February 2010. Canberra: Australian Bureau of Statistics.

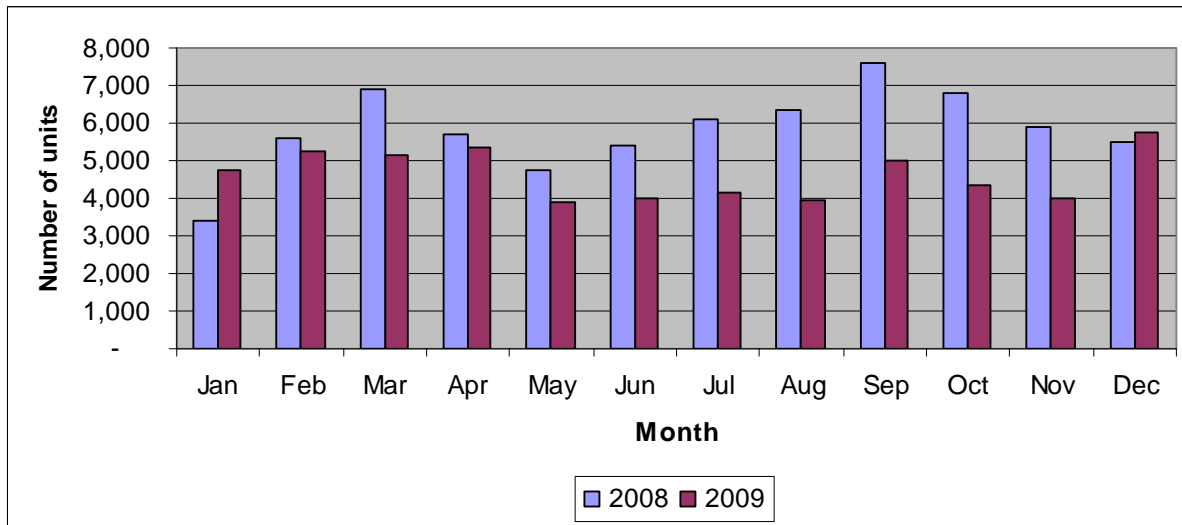
Based on the data presented above sales of established dwellings increased in November 2008 and December 2008 but slumped in January 2009, down 17 per cent on the January 2008 figures. The number of established dwellings sold increased by 10 per cent from 575 540 units in 2008 to 631 445 units in 2009. Even though purchasers of established dwellings received AUD7 000 less than purchasers of new dwellings up until 30 September 2009, this did not discourage purchasers from buying an established dwelling. Activity in the established housing market decreased during the period October 2009 to December 2009 and this can be linked to the fact that the First Home Owner Boost was reduced from AUD7 000 to AUD3 500.

It is clear that the First Home Owner Boost succeeded in its objectives. It also ensured unprecedented growth in the construction and housing industry in Australia. During 2009 34 per cent more new dwellings were sold, 50 per cent more new dwellings were constructed and 10 per cent more established dwellings were sold. More Australians were able to enter the housing market for the first time.

The performance of the South African housing sector

Similar statistics relating to the number of new or established dwelling sold in South Africa were not available and only the number of new dwellings reported as completed could be obtained from Statistics South Africa. Figure 9 below indicates the number of new dwellings completed in South Africa during 2008 and 2009:

Figure 9: Number of new dwellings constructed in South Africa: January 2008 to December 2009



Source: Statistics South Africa. 2010. *Bulletin of Statistics: Building reported as completed to municipalities by type of building. Volume 44.* March 2010. Pretoria: Statistics South Africa, p. 10.15.

From the data shown in the figure above it is noted that the number of new dwellings completed in January 2009 showed an increase of 40 per cent on the corresponding month in 2008. However, the property market entered a phase of downturn.

Between February and November 2009 the number of new dwellings completed decreased by an average of 25 per cent when compared with the same period in 2008. The total number of new dwellings constructed and completed during 2009 has decreased by 21 per cent when compared with the 2008 number of units. The South African housing industry will therefore benefit from the implementation of a similar tax incentive to boost housing sales.

3.3.4 Additional tax investment allowance on eligible capital assets

In December 2008 the Prime Minister of Australia (2008) announced an additional tax investment allowance on eligible capital assets. It involved an additional tax deduction on top of the usual capital allowance deduction for small and general businesses purchasing eligible capital assets between 13 December 2008 and 30 June 2009. It was not a rebate or refund of tax but reduced the taxpayer's taxable income.

During the Budget Speech (2009) the Treasurer of the Commonwealth of Australia announced that the investment allowance announced in December 2008 would be increased and extended. The following table explains the additional tax investment allowance for small businesses and general businesses in more detail:

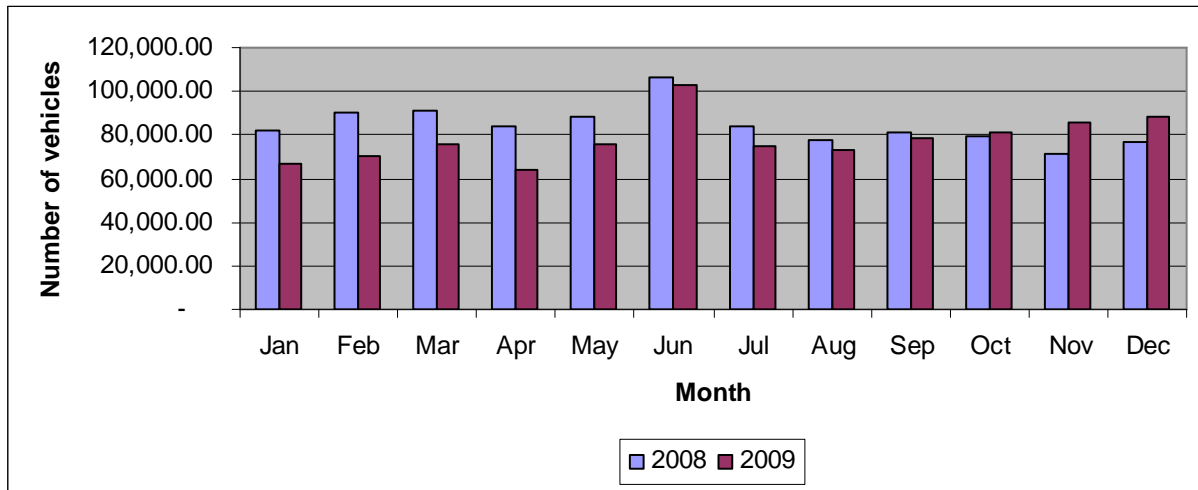
Table 5: Additional tax investment allowances available to businesses

Eligibility criteria	50 per cent tax break	30 per cent tax break	10 per cent tax break
Annual Turnover	Less than AUD2 million	More than AUD2 million	More than AUD2 million
Asset value threshold	AUD1 000	AUD10 000	AUD10 000
Purchase period	13/12/2008 to 31/12/2009.	13/12/2008 to 30/6/2009	1/7/2009 to 31/12/2009
Use/install/improve by	31/12/2010	30/6/2010	31/12/2010

The additional tax investment allowance had specific bearing on the motor vehicle industry in Australia. According to The Federal Chamber of Automotive Industries (FCAI) (2009) vehicle sales in Australia increased by 19.9 percent in November 2009 compared with the same month in the previous year. The Chief Executive Officer of the FCAI noted that an increase of 35 per cent in business sales during November 2009 could not have been achieved without the business tax break introduced.

A snapshot of the number of new vehicles sold in Australia between January 2008 and December 2009 is provided in Figure 10.

Figure 10: Total number of new vehicles sold in Australia: January 2008 to December 2009



Source: Australian Bureau of Statistics. 2009. *Sales of New Motor Vehicles Statistical Release 9314.0*. 21 January 2010. Canberra: Australian Bureau of Statistics.

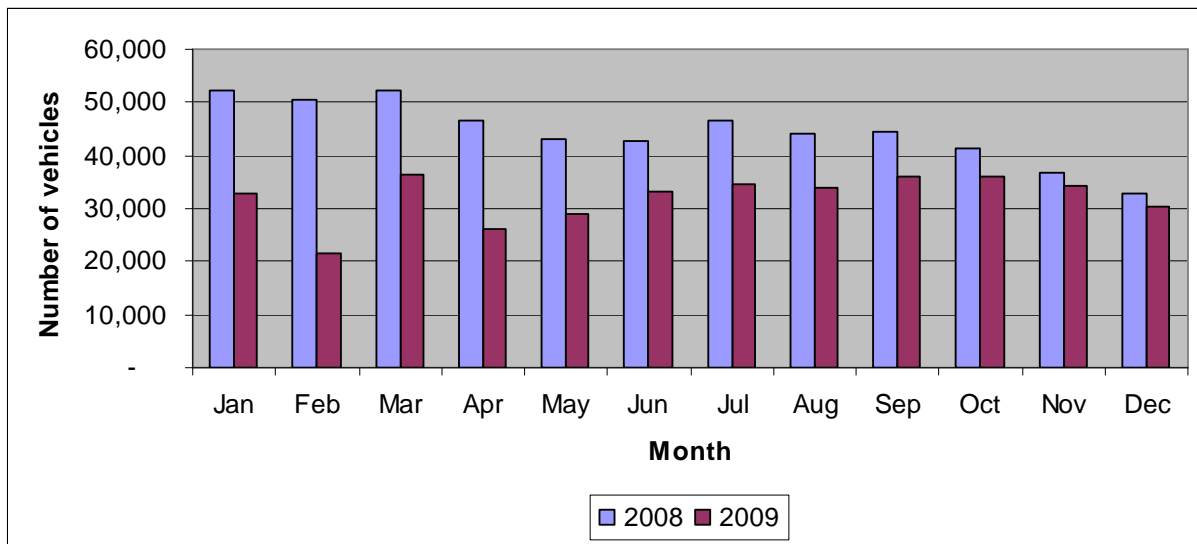
As noted from the data presented in the figure above new vehicle sales decreased during the first six months of 2009. However, as the deadline of 31 December 2009 approached, there was a significant increase in the number of new vehicles sold: 20 per cent more vehicles were sold in November 2009 and 16 per cent more in December 2009 when compared with the corresponding months in 2008.

Although new vehicle sales decreased by 7 per cent from one million units sold in 2008 to 937 000 in 2009 it is of interest to note the increase in new vehicle sales during June and December 2009. This indicated that the tax incentive motivated businesses to purchase vehicles before the expiry of the initial deadline of 30 June 2009 and the extended deadline of 31 December 2009.

The performance of the South African vehicle sector

The South African motor industry has experienced strong growth in new vehicle sales from 2003 to 2006. According to Richardson (2010:14) new vehicle sales rose from 382 000 in 2003 to 481 000 in 2004, reaching 617 000 in 2005 and an all-time high of 714 000 units sold in 2006. To illustrate the effects of the global financial crisis on the motor industry Figure 11 indicates the total number of new vehicles sold in South Africa from January 2008 to December 2009.

Figure 11: Total number of new vehicles sold in South Africa: January 2008 to December 2009



Source: National Association of Automobile Manufacturers of South Africa. 2009. *NAAMSA New Vehicle Sales Report*. Selected months. Pretoria: NAAMSA.

It is clear from the data presented in Figure 11 that new vehicle sales decreased dramatically in South Africa during 2009. The biggest decrease was experienced in February 2009 when 57 per cent fewer new vehicles were sold than during the corresponding month in 2008.

Overall total new vehicle sales decreased by 28 per cent during 2009 (533 000 units) when compared with the year-to-date figures of 2008 (384 000 units). It follows that the South African motor industry can hugely benefit from a tax incentive aimed at boosting new vehicle sales.

3.4 CONCLUSION

From the data presented above it can be concluded that the Australian Government acted timely to the threats posed by the global financial crisis. The fiscal incentives implemented were designed to target the three most important sectors of the Australian economy: retail, construction and the vehicle industries. The monetary and fiscal policy changes proved to cushion the Australian economy during the global financial crisis.

The data presented from a South African perspective does not paint a rosy picture. Retail sales have decreased by 5 per cent in 2009, new vehicle sales have slumped by 28 per cent, whilst confidence in the housing market had hit an all-time low. The South African economy will benefit a great deal if some of the tax incentives introduced in Australia were implemented.

The next chapter will analyse the tax incentives initiated in China and the related impact on the Chinese economy.

CHAPTER 4

TAX INCENTIVES INTRODUCED IN CHINA

4.1 INTRODUCTION

As noted in Chapter 3, Australia has introduced three major tax incentives in an effort to boost economic and employment growth. China was considered the second country to be surviving the global financial crisis the best. This chapter will analyse the tax incentives introduced by China.

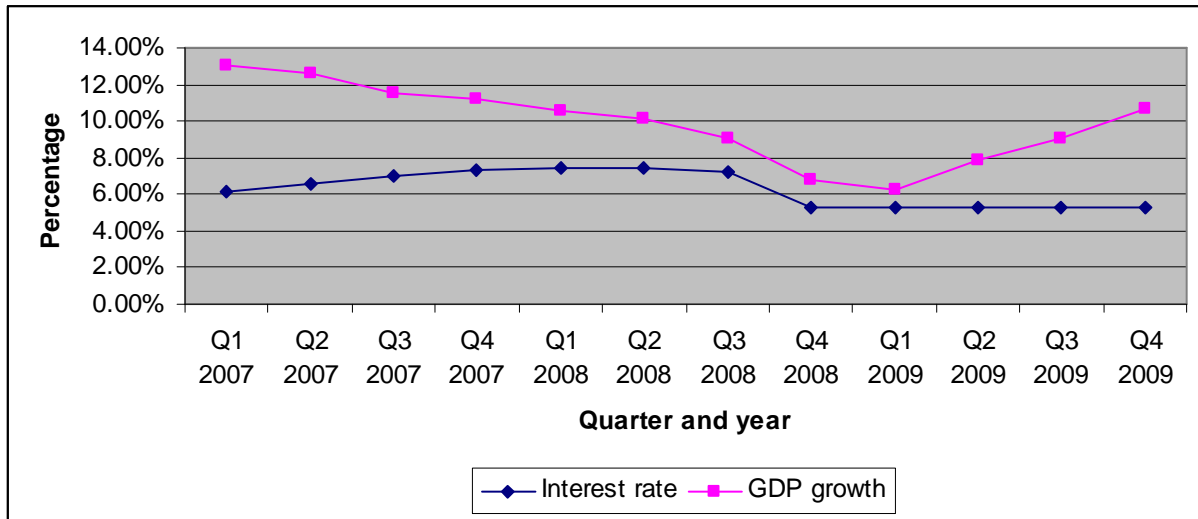
Over the past decade China has achieved enormous success with economic growth in excess of 7 per cent per year. This has resulted in lifting millions of China's population out of poverty and ensured that China accounted for 75 per cent of poverty reduction in the developing world (World Bank, 2010).

4.2 MONETARY POLICY OVERVIEW: 2007 TO 2009

The economic boom was most evident in China during 2007. Interest rates were at 6.12 per cent in January 2007 and an average GDP growth rate of 12.08 per cent was recorded in 2007.

Figure 12 provides an overview of the monetary policy changes and the economic growth rate in China from 2007 to 2009:

Figure 12: The interest rate and GDP growth rate in China: 2007 to 2009



Source: www.tradingeconomics.com

The Chinese government raised interest rates during the latter part of 2007 before lowering the interest rates by nearly two percent to 5.31 per cent in December 2008 in an effort to boost the economy. The unemployment rate was 4.1 per cent during the first quarter of 2007 and increased to 4.3 per cent in 2009 (Tradingeconomics.com, 2010).

China's monetary policy did, to some extent, sustain economic growth. The GDP growth rate increased shortly after interest rates were lowered to 5.31 per cent but China also introduced fiscal policy changes in an effort to further stimulate economic growth.

4.3 FISCAL POLICY INCENTIVES INTRODUCED

The Chinese fiscal stimulus package was announced in November 2008 (Batson, 2008:A1). The CNY4 trillion fiscal stimulus package focused on the housing, infrastructure, agriculture, health care and social welfare sectors. It was designed to restore fading confidence of Chinese businesses and consumers and impress foreign governments. The tax incentives introduced included reduction of vehicle purchase taxes and export rebates.

4.3.1 Reduction in vehicle purchase tax

China's fiscal stimulus package included a reduction of the purchase tax on small cars (i.e. engine capacity of up to 1.6 litres) from 10 per cent to 5 per cent (Kumar, 2009). This stimulus measure was effective from January 2009 and was due to expire on 31 December 2009. The Chinese government extended the stimulus incentive to expire in December 2010 but the purchase tax on small cars was increased from 5 per cent to 7.5 per cent.

The introduction of the reduction in the vehicle purchase tax has had a significant effect on new vehicle sales in China during 2009. Total vehicle sales between January 2009 and November 2009 increased by more than 42 per cent compared to the same period in 2008. Vehicle sales reached 1.34 million units in November 2009, an increase of 96.4 per cent compared to vehicle sales in November 2008 (Kumar, 2009).

Statistical websites and an extended search on the World Wide Web did not provide any reliable statistics relating to monthly vehicle sales in China and therefore reliance is placed on the article published by Kumar. By implementing this tax incentive, China's vehicle sales reached 1.34 million units in the space of one month.

Reaching the one million mark in South Africa's vehicle market

According to Richardson (2010:14) motor industry experts predicted that South Africa would reach annual new vehicle sales of one million vehicles in 2010. According to the National Association of Automobile Manufacturers the total number of new vehicles sold in South Africa did not even reach the 400 000 unit mark in 2009. Richardson continued by indicating that the South African Government's Automotive Production and Development Programme, starting in 2013, forecasted that vehicle sales may only reach one million new vehicles sold in a calendar year in 2020.

The South African government has to date not implemented any tax incentives to boost vehicle sales. However, policy measures have been introduced to address the environmental aspects of the vehicle sector in South Africa. These policy measures included *inter alia* the revised luxury *ad valorem* excise duty on the sale of new vehicles to come into operation on 1 March 2010 in South Africa. This proposed duty will be based on the retail price as well as the CO₂ (carbon) emissions of the vehicle (South African Revenue Services, 2009:10-12).

This proposed excise duty may have a further adverse effect on the South African vehicle industry and may result in fewer new vehicles sold. Potential vehicle buyers may turn their attention to the second-hand vehicle industry in order to avoid paying the proposed excise duty, leaving new vehicle sales to deteriorate further.

To further illustrate the impact of the proposed excise duty, consider the following example. The Motor vehicle *ad valorem* excise duty will be levied based on the retail price of the vehicle as well as the carbon emissions produced by the vehicle.

The levy will be calculated as the tax base x (X + Y).

- The tax base is equal to the retail price less 28 per cent.
- X and Y will be determined in terms of a table issued by the South African Revenue Services.

Table 6 presents the impact of the proposed motor vehicle *ad valorem* excise duty on the retail price of the following vehicles: the Volkswagen Citi Golf, Jaguar XF3.0, Mercedes-Benz E350 (each emit 212 grams of CO₂ gas per kilometre) and the Citroen C4 (emits 152 grams of CO₂ gas per kilometre).

Table 6: Impact of the proposed motor vehicle *ad valorem* excise duty on new vehicle retail price

	Volkswagen Citi Golf	Jaguar XF3.0	Mercedes- Benz E350	Citroen C4 1.6HDi
Retail price ¹	R98 300	R597 000	R617 000	R205 000
CO ₂ emissions ¹	212	212	215	152
Tax base 28% of retail price	R70 776	R429 840	R444 240	R147 600
X as per SARS tables	0.6%	8.6%	11.8%	3.8%
Y as per SARS tables	6.7%	6.7%	6.7%	2.7%
Excise duty payable Tax base x (X+Y)	R5 167	R65 766	R82 184	R9 594
Excise duty payable as percentage of retail price	5%	11%	13%	5%

¹Source: CAR Magazine. 2010. *Car Guide*. January 2010. p. 145 – 180.

It is noted that the retail price of vehicles will increase by between 5 and 13 per cent with the introduction of the excise duty. The calculation of the excise duty payable is biased against vehicles with a higher retail price as illustrated in the example above.

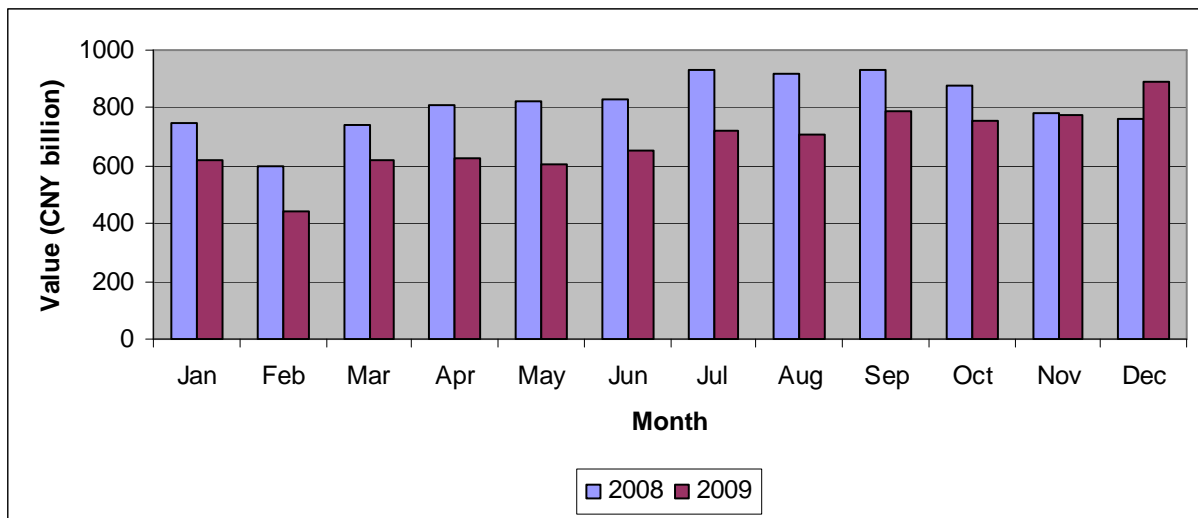
Although the Mercedes-Benz or the Jaguar may be looked upon as being more luxurious than the Volkswagen, their carbon emission per kilometre (environmental impact) is the same. The Citroen emits less carbon gas per kilometre than the Volkswagen but because the Citroen is more expensive a higher tax is to be levied on the Citroen.

The introduction of this “luxury” excise duty with reference to the retail price of the vehicle proves to be biased towards potential vehicle buyers looking to purchase a vehicle with more luxurious and better-quality safety features. It is of great importance that South Africa reconsiders the implementation of this “luxury” excise duty as this may have an adverse effect on an already struggling motor vehicle industry.

4.3.2 Export tax rebate

China’s Ministry of Finance and State Administration of Taxation introduced an increase in export tax rebates in August 2008, November 2008, December 2008 and January 2009 (Qiong 2009:2). This rebate was introduced in an effort to stimulate China’s export industry, the heart of the Chinese economy. Figure 13 indicates the value of China’s exports during 2008 and 2009.

Figure 13: Value of exports in China: January 2008 to December 2009



Source: www.tradingeconomics.com

It is noted from the data presented in Figure 13 that exports peaked during July 2008 and reached its lowest point in February 2009. The value of exports was 26 per cent lower in February 2009 when compared with the value of exports in February 2008. Since February 2009 the value of exports has increased every month but export values still remained lower by at least 23 per cent every month when compared with the corresponding month of the previous year.

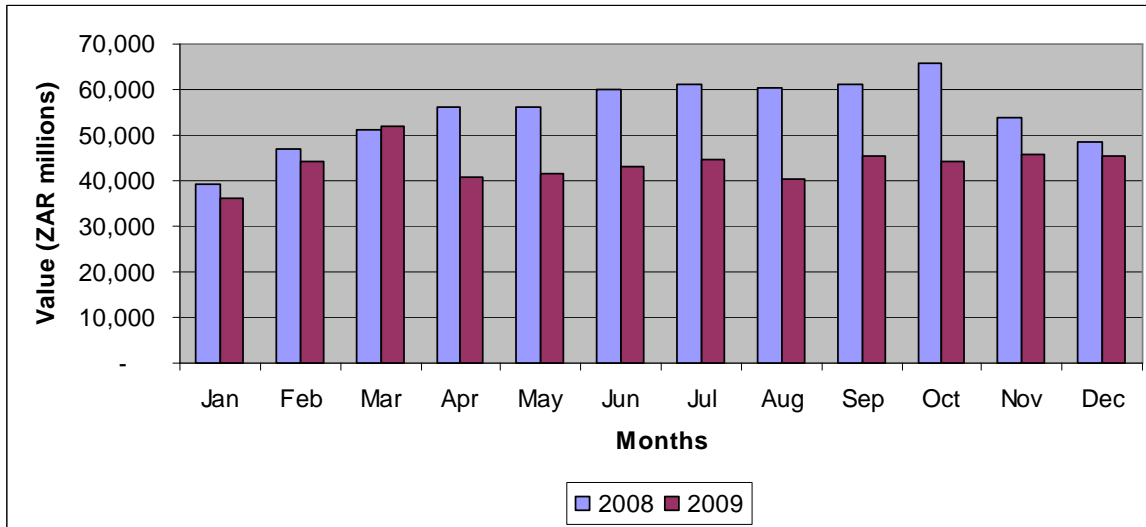
However, the value of exports recorded in December 2009 increased by 18 per cent compared with the same period in 2008. This indicated that the reduction in export rebate rates supported economic growth during 2009 although it took some time for the positive effect to be noticeable.

The performance of the South African export sector

Exports amounted to approximately 35 per cent of South Africa's GDP in 2008 according to the US Department of State (2009). The export sector is therefore a key industry in the South African economy and it is of importance to ensure that sufficient incentives are put in place to ensure the export market continues to grow.

Figure 14 provides an overview of the value of South African exports from January 2008 to December 2009.

Figure 14: Value of exports in South Africa: January 2008 to December 2009



Source: www.tradingeconomics.com

In contrast with China the value of exports in South Africa has decreased significantly during 2009 as evident by the data presented in Figure 14. The value of exports in March 2009 was on par with the value of exports in March 2008. However, since April 2009 the value of exports has decreased by at least 20 per cent each month when compared with the corresponding month of the previous year.

Cumulative export values decreased by 21 per cent during 2009 when compared with cumulative export values of 2008. It is clear that South Africa's export sector could benefit from a similar tax incentive implemented by China.

4.4 CONCLUSION

China's monetary policy supported economic growth to some extent. Economic growth showed signs of improvement within three months of the interest rate being lowered to 5.31 per cent.

After the implementation of the monetary and fiscal changes, Batson (2008) cautioned that China's economy would not be able to absorb so much spending immediately.

In January 2010 the Chinese central bank increased interest rates in an effort to ease the overheating economy (Anon, 2010). It can therefore be concluded that the monetary and fiscal changes implemented have ensured positive economic growth in China.

South Africa's new vehicle sales and export market has decreased significantly during 2009. Efforts should be made to implement tax incentives that will stimulate growth in these sectors as it proved to be beneficial to the Chinese economy.

Tax incentives implemented by Singapore, together with the related impact these incentives had on the economy will be addressed in the next chapter.

CHAPTER 5

TAX INCENTIVES INTRODUCED IN SINGAPORE

5.1 INTRODUCTION

Chapter 4 dealt with tax incentives introduced by China during the global financial crisis. Singapore was ranked below China, as the third country perceived to be surviving the economic crisis the best. Since its independence in 1965 Singapore's Government has adopted a pro-business, pro-investment and export-orientated economic policy framework.

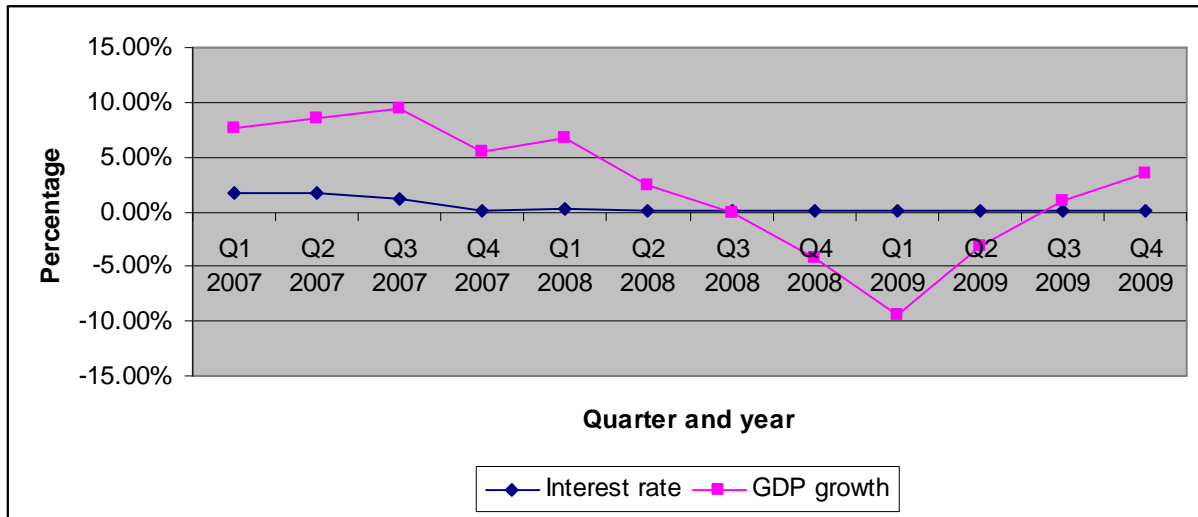
This framework proved successful as Singapore's real GDP growth averaged 7.8 per cent from 1965 to 2009. However, Singapore has recorded its worst quarters of decline in economic activity in late 2008 and early 2009 but was able to recover with strong performances in the last quarters of 2009 (Department of State, 2010).

5.2 MONETARY POLICY OVERVIEW: 2007 TO 2009

Singapore's interest rates were already very low when the global financial crisis began in December 2007. An average economic growth rate of 7.8 per cent was recorded in 2007 and the unemployment rate was at 1.7 per cent, the lowest since the beginning of the new millennium.

Figure 15 compares the monetary policy changes and the economic growth rate in Singapore from 2007 to 2009:

Figure 15: The interest rate and GDP growth rate in Singapore: 2007 to 2009



Source: www.tradingeconomics.com

As noted from the data contained in Figure 15 Singapore recorded three quarters of negative growth during the latter part of 2008 and early 2009. Even by lowering interest rates to below 1 per cent Singapore recorded average negative economic growth in 2009 of 2.08 per cent. The unemployment rate increased to 3.4 per cent in 2009, the highest since the third quarter of 2004 (Tradingeconomics.com, 2010). Singapore's monetary policy changes did not have a positive effect on economic growth or employment growth in the country. Singapore then moved to announce various tax incentives in the 2009 budget.

5.3 FISCAL POLICY INCENTIVES INTRODUCED

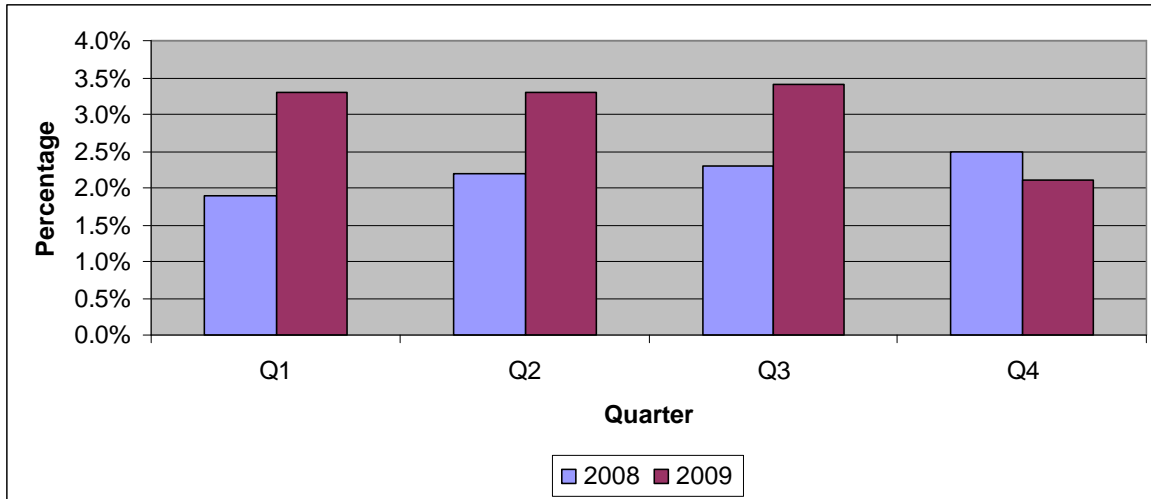
The Singapore Budget of 2009 contained a vast number of tax incentives aimed at assisting companies and individuals weather the economic turbulence. The Budget included *inter alia* deferral of property tax for developers, accelerated capital allowances on the purchase of plant and equipment and a commercial and industrial property tax rebate of 40 per cent (KPMG, 2009). No statistical data could however be obtained to provide a clear analysis of exactly how these tax incentives impacted on the Singapore economical climate.

Another tax incentive was lowering the corporate tax rate from 18 per cent to 17 per cent applicable from the 2010 year of assessment. This step could assist to make Singapore a more attractive foreign investment destination. As the corporate tax rate will only reduce from 2010, it is unlikely to provide immediate relief for cash-strapped businesses. The only tax incentive that could be of importance to South Africa is the Job Credit as described in the section to follow.

5.3.1 Jobs Credit

The Jobs Credit is a cash grant introduced in the 2009 Singapore Budget announced on 22 January 2009 to ensure that Singapore employees remain in the workforce (KPMG, 2009:1). The cash payments would be made each quarter over a one year period and employers would be entitled to a grant of up to 12 per cent on the first SGD2 500 of the monthly wage of each employee on the payroll. It was therefore anticipated that this tax incentive would have a favourable effect on the unemployment rate which is presented in Figure 16 below.

Figure 16: Singapore unemployment rate: Quarter 1 2008 to Quarter 4 2009



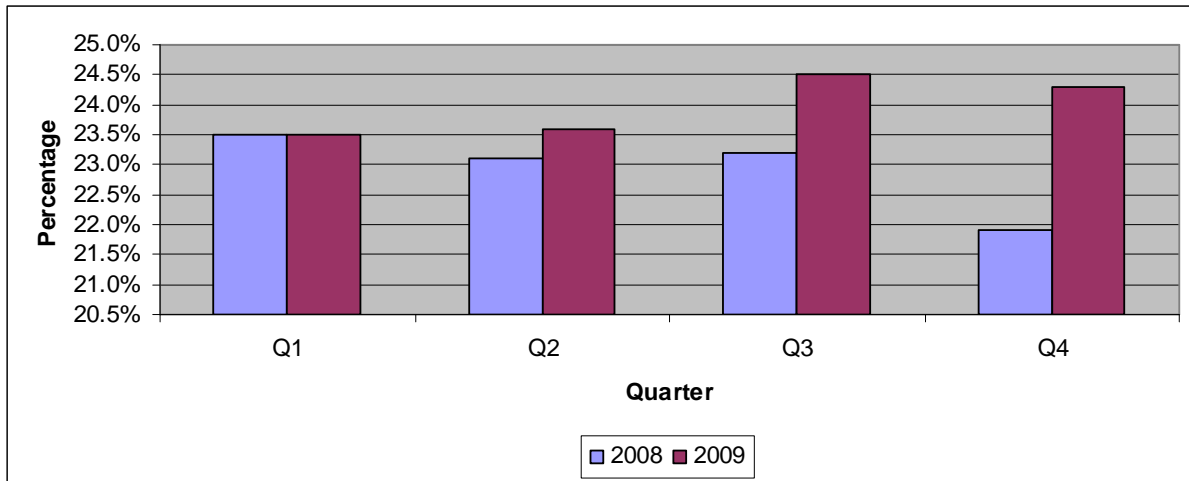
Source: www.tradingeconomics.com

The unemployment rate increased from 1.9 per cent in the first quarter of 2008 to 3.4 per cent in the third quarter of 2009. However, there were signs of improvement in the job market as the unemployment rate decreased to 2.1 per cent in the fourth quarter of 2009. This tax incentive appears to have had a delayed effect on employment with an initial increase in the unemployment rate during the first two quarters of 2009, followed by a 1.3 percentage point decrease in the last quarter of 2009.

The South African unemployment rate

One of the key principles contained in the 2009 Budget of South Africa was to sustain employment growth. Figure 17 indicates the change in the South African unemployment rate from the first quarter of 2008 through to the third quarter of 2009.

Figure 17: South Africa unemployment rate: Quarter 1 2008 to Quarter 4 2009



Source: Statistics South Africa. 2009. *Quarterly Labour Force Survey. Statistical Release P0211*. 9 February 2010. Statistics South Africa: Pretoria, p. 6.

The unemployment rate in the fourth quarter of 2008 was 21.9 per cent, the lowest rate since 2000. The unemployment rate gradually increased to 24.5 per cent in the third quarter of 2009 before ending at 24.3 per cent in the last quarter of 2009. According to the World Bank (2010), it was estimated that nearly 500 000 employees lost their jobs during 2009.

5.4 CONCLUSION

The fiscal policy incentives introduced in the Singapore budget did not have the desired impact to ensure positive economic growth during 2009. The majority of the tax incentives announced will only be effective from 2010 onwards. It is unlikely that these tax incentives will provide immediate relief for cash-strapped companies. The Jobs Credit incentive was aimed at keeping Singaporeans employed, however, the unemployment rate increased to its highest level since the first quarter of 2007. It may therefore be concluded that this tax incentive did not reach its objective.

In South Africa the unemployment rate also reached its highest level since the start of the new millennium. It would not be worthwhile considering the implementation of a tax incentive similar to the Job Credit incentive without first attempting to improve economic activity in the housing, vehicle and retail market.

This chapter concludes the analysis of the various tax incentives introduced by Australia, China and Singapore respectively. The next chapter will provide the final conclusions and recommendations.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6.1 SUMMARY AND CONCLUSIONS

The final chapter of this research study will first provide an overall summary of the research objectives and conclusions based on the findings and will conclude with recommendations on the tax incentives South Africa should consider implementing as well as how this research study could be used to aid further research.

6.1.1 Summary

This research study was guided by the core research question of whether South Africa should consider implementing tax incentives similar than those implemented in Australia, China and Singapore. The main research objective was to critically analyse the tax incentives implemented by Australia, China and Singapore and the effect thereof on economic performance. The final outcome of this research study was to identify whether South Africa should consider the implementation of similar tax incentives.

It was found that Australia implemented tax incentives specifically aimed at keeping the retail, vehicle, construction and housing industries afloat during the economic downturn. China focused on tax incentives to support their exports and vehicle industry, whilst Singapore focused on keeping employees in the workforce.

A summary of the tax incentives implemented by Australia, China and Singapore will be presented in the table below. The summary will also contain conclusions/recommendations on whether South Africa should consider implementing the specific tax incentive.

6.1.2 Conclusions

Table 7 provides a summary of the tax incentive implemented and a conclusion/recommendation of whether South Africa should consider implementing the specific tax incentive.

Table 7: Summary of findings based on the tax incentives introduced in Australia, China and Singapore

Economic industry targeted	Findings	Should South Africa consider implementing this tax incentive
Cash Tax Bonus Payment (Australia)		
Retail	<p>The introduction of the AUD900 Tax Bonus resulted in Australian retail sales ending 6 per cent higher at AUD238 million at the end of 2009¹. Retail sales increased steadily each month after the introduction of the AUD900 Tax Bonus for working Australians.</p> <p>It can be concluded that the AUD900 Tax Bonus has had a very positive effect on retail sales and has contributed to positive growth in the Australian retail industry.</p>	<p>The value of retail sales in South Africa ended 5 per cent lower in 2009¹. South Africa's retail sector could hugely benefit should a similar fixed value tax bonus be paid to eligible taxpayers.</p> <p>A fixed value tax bonus may not only encourage taxpayers to spend their bonus in the retail sector but will also encourage taxpayer to submit their annual tax returns in a timely fashion.</p>

¹ – when compared with year-to-date figures of 2008.

Economic industry targeted	Findings	Should South Africa consider implementing this tax incentive
First Homeowner Entitlements (Australia)		
Construction and housing industry	<p>The introduction of the First Homeowners Boost in Australia saw the number of new dwellings purchased rise by 34 per cent in 2009¹. The number of established dwellings purchased increased by 10 per cent in 2009¹. At the end of 2009 the number of new dwellings constructed was up by 50 per cent on the number of units constructed in 2008.</p> <p>In conclusion, the First Homeowners Boost has ensured continued growth in the housing and construction market at a time when consumers were reluctant to spend and players in the banking industry reduced their lending.</p>	<p>Due to the lack of data on new and established dwellings sold it was not possible to determine the deterioration of the property market in South Africa. However the number of new dwellings recorded as completed during 2009¹ has shown a decrease of 21 per cent.</p> <p>By providing South African property buyers with a similar homeowners grant the construction and housing sector could potentially recover from the economic downturn at a faster pace.</p>

¹ – when compared with year-to-date figures of 2008.

Economic industry targeted	Findings	Should South Africa consider implementing this tax incentive
Additional tax investment allowances and reduction of vehicle taxes (Australia and China)		
Vehicle industry	<p>New vehicle sales in Australia decreased to 937 328 units in 2009, down 7 per cent on the 1 012 165 units sold in 2008. During the first six months of 2009 new vehicle sales declined an average of 17 per cent when compared with the 2008 figures.</p> <p>However, during the second half of 2009 new vehicle sales showed an average increase of 3 per cent over the six month period. In November 2009 and December 2009 nearly 20 per cent more vehicles were sold than during the corresponding months of the prior year.</p> <p>China's incentive to reduce the vehicle purchase tax by 50 per cent lead to nearly 50 per cent more new vehicles sold during 2009 than during 2008.</p>	<p>During 2009 South African new vehicle sales decreased by 28 per cent on the number of units sold in 2008. Motor industry experts predicted sales of one million units by 2010, however the number of units sold in 2009 did not even reach the 400 000 mark.</p> <p>From an income tax perspective the South African Revenue Services currently allows vehicles to be written off over a period of five years. The implementation of an additional tax incentive (i.e. 50 per cent capital allowance in the year of acquiring the asset) can be beneficial to business owners. This incentive will however not have any cash flow advantages to businesses as this allowance merely reduces the taxpayers' taxable income.</p>

Economic industry targeted	Findings	Should South Africa consider implementing this tax incentive
Additional tax investment allowances and reduction of vehicle taxes (Australia and China) cont.		
	<p>It can therefore be concluded that the additional tax investment allowance spurred new vehicle sales and hindered further deterioration of the new vehicle market.</p>	<p>However, if the goal of SARS is to provide cash flow advantages to businesses, the following recommendation can be considered. Under the current Value-Added Tax (VAT) legislation a VAT vendor is prohibited from claiming an input tax deduction on the purchase of any vehicle that meets the definition of a “motor car” as defined in the Value-Added tax Act, 89 of 1991. SARS could consider lifting this prohibition for a period of time to allow VAT vendors to claim a VAT refund when a new vehicle is purchased. This incentive may provide added cash flow benefits to businesses and increase vehicle sales in South Africa.</p>

Economic industry targeted	Findings	Should South Africa consider implementing this tax incentive
Additional tax investment allowances and reduction of vehicle taxes (Australia and China) cont.		
		<p>South Africa should also reconsider the implementation of the Motor vehicle <i>ad valorem</i> excise duty. This excise duty will increase the purchase price of the vehicle and could result in a further decline in new vehicle sales. This excise duty could move buyers towards the second-hand vehicle market where vehicles could potentially be less fuel and CO₂ efficient. South Africa should rather consider implementing a rebate to reward buyers for choosing fuel and CO₂ efficient vehicles. As an example would be to pay a fixed cash scrapping allowance to vehicle owners when they replace their vehicles (older than ten years) with a new, more fuel efficient vehicle. In this way vehicle owners are rewarded for choosing a fuel efficient car rather than being taxed on the retail value of the new vehicle.</p>

Economic industry targeted	Findings	Should South Africa consider implementing this tax incentive
Export rebates (China)		
Export industry	<p>China overtook Germany in 2009 as the world's leading exporting country as reported on the Tradingeconomics website. Although exports fell by 16 per cent in 2009¹ China recorded an increase in the value of exports of 15 per cent in November 2009 and 18 per cent in December 2009 when compared with the corresponding month of the previous year.</p> <p>This tax incentive achieved the desired effect as China posted positive economic growth in 2009.</p>	<p>The value of South Africa's exports has declined by 21 per cent in 2009¹. It may be worth considering the implementation of export rebates, however if global demand for products exported by South Africa (<i>inter alia</i> motor vehicles, wine) declines further the implementation of this tax incentive will not have the desired effect. Exports may not increase and the local South African market will see an oversupply of items intended for the export market. This in turn could affect the prices of products as the supply will exceed demand for the product.</p>

¹ – when compared with year-to-date figures of 2008.

Economic industry targeted	Findings	Should South Africa consider implementing this tax incentive
Jobs Credit (Singapore)		
No specific industry	<p>The goal of this tax incentive was to ensure that businesses received a cash grant to support them in retaining employees. However, the unemployment rate in Singapore increased from 1.9 per cent in 2008 to 3.4 per cent in third quarter of 2009, before decreasing to 2.1 per cent in the last quarter of 2009. The tax incentive at first did not prove to provide any benefit to employees as many employees lost their jobs while businesses benefited from the cash grant. The timing of the cash grant benefited businesses as the employee may have lost his/her job in one quarter and the employer would receive the cash grant in the next quarter.</p>	<p>South Africa should not consider implementing this tax incentive. Although this tax incentive could alleviate the cash flow burden of an employer, the employee receives no guarantee that they will remain employed. South Africa could rather consider implementing a cash grant to employers based on the number of new employees appointed. It could be beneficial to ensure that the cash grant be subject to certain terms and conditions (i.e. a minimum duration of employment, a portion of the cash grant are to be used towards the employee's remunerations, cash grant exempt from fringe benefit tax). This will potentially ensure that employees remain in the workplace and receive a portion of the cash grant benefit.</p>

6.2 RECOMMENDATIONS

6.2.1 Recommendations in terms of managerial action

It is recommended that the South African government consider implementing the following tax incentives in an effort to boost economic growth:

- Fixed value cash bonus to eligible tax payers. This could potentially increase spending in the retail sector, if not on luxury items then at the local fast food diner.
- Cash grant to potential buyers who want to enter the property market for the first time. This will reduce the inventory levels of construction companies and fuel an increase in demand for new dwellings to be constructed.
- Additional capital allowances to businesses purchasing new vehicles will encourage business owners to replace or expand their current vehicle fleet. This incentive may not produce cash benefits to businesses and therefore a cash rebate of the VAT paid or a cash scrapping allowance to replace vehicles could move vehicle sales into positive growth at a faster pace.
- Rebate to buyers who choose more fuel and CO₂ efficient vehicles will be more beneficial to the South African vehicle market than the proposed *ad valorem* excise duty.

South Africa should be mindful when implementing these tax incentives to ensure that economic growth is sustainable once the tax incentives expire.

6.2.2 Recommendations for future research

This research study could be used to measure the growth rate in Australia's retail, housing and vehicle industries, China's vehicle and export industries and Singapore's unemployment rate in 2010 and beyond. Should South Africa choose to implement some of the suggested tax incentives this study could be used as the benchmark when comparing economic growth before and after the tax incentives were implemented.

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