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Dear Basil

SARS IT14SD FORM

1. In past engagements with SARS at the SARS National Stakeholder meetings, concerns have been raised regarding the design and usefulness of the IT14SD form in its current format.

2. SARS has noted, in the stakeholder meetings, that whilst the IT14SD will remain in use, it will welcome proposals regarding possible changes to the design of the form in order to address some of the challenges experienced by taxpayers as well as adding value to the SARS process.

3. We set out in Annexure A, some proposals based on engagement with members, categorised per tax type as set out in the IT14SD form.

4. As always, we appreciate SARS' willingness to collaborate. We would like to propose a meeting with relevant SARS staff to more clearly explain the challenges and potential proposals set out in this submission.

5. Should you wish to clarify any of the comments, please do not hesitate to contact us.

Yours sincerely

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ANNEXURE A
SARS IT14SD FORM - PROPOSALS FOR IMPROVEMENT

General

1. Currently, it is unclear as to what the criteria is that results in a need for a taxpayer to submit an IT14SD form.

2. For example, in some instances dormant or non-trading companies receive requests for IT14SDs and some companies receive requests on an annual basis. There is no feedback from SARS, to taxpayers in general, indicating how the IT14SD is used and whether it is useful to SARS in the current format.

3. The completion of the IT14SD is an administratively burdensome exercise for large businesses and results in significant resources being allocated or procured (for example, consultants and temporary staff) and costs being incurred to meet the compliance obligation. Currently, companies submit the ITR14, which is due 12 months after the year of assessment and are then notified that the company has been selected for the IT14SD verification which requires work at that point in order to create reports that are not ordinarily created by existing systems.

4. <u>Submission</u>: SARS should review its risk engines which triggers the request for the IT14SD to ensure that the circumstances warrant an IT14SD rather than requesting this form in instances where the reconciliation is unlikely to yield any results and is a waste of resources (e.g. dormant companies, holding companies and companies which year on year submit the reconciliation, yielding no queries or adjustments).

5. If the purpose of the IT14SD is to identify audit risk factors, perhaps it would be more useful for SARS to initiate a formal audit in order to achieve its objectives.

6. In view of the significant detailed exercise required to complete the IT14SD reconciliation we believe that SARS should consider identifying specific industries, sectors or companies that they deem necessary to submit an IT14SD reconciliation. These identified entities must then be notified by SARS, in advance of the effective year of assessment, that they will need to submit the IT14SD reconciliation verification for a period of, for example, 3 to 5 years. This will provide the identified entities with an opportunity to prepare for the IT14SD reconciliation by allocating resources, procuring additional staff, services or skills needed rather than the companies waiting until the ITR14 to be submitted and then being notified that the IT14SD verification is required to be submitted.

Income Tax

7. In our view, this section currently adds no value to the form as it is merely a complete replication of the income tax return.

8. <u>Submission</u>: This section should either be deleted or instead of requiring manual input, this should be automatically pre-populated from the information that has been disclosed in the ITR14.

VAT - General comments

9. The current format of the form makes it difficult to reconcile to the relevant returns and there is insufficient space to include all reconciling items. Furthermore, customs VAT is not included on the IT14SD form.

10. There appears to be an issue in the design in that it does not adequately take into account the increase in the VAT rate from 14% to 15% in 2018. Furthermore, the return does not take into account the impact of taxpayers that either registered or deregistered during the relevant tax year of assessment for which the reconciliation is required.

11. In our view, it would also be worthwhile separating the purchase of assets from the purchase of stock items on the form and furthermore include an additional, separate line item for non-vatable expenses.

12. There are significant challenges in groups of companies where multiple ERP systems are in use. This results in the taxpayer having to prepare multiple reconciliations from the different ERP systems and then consolidating these into the format suitable to SARS. Additional staff have to be hired in order to fulfil this task.

13. Submission: The design of the VAT section of the IT14SD format should mirror that contained in the input section of the VAT 201 form. This would not only make the reconciliation easier, but it would also reduce the time taken to do it and would be a more meaningful exercise.

14. The form should be amended to take into account the two different VAT rates rather than having to disclose this as a reconciling item.

15. The form should make provision for entities registered or deregistered during the year of assessment.

16. We propose a change in the format to a “Total with reconciling item” instead of “these items add up to” format for the reconciliation.

17. Customs VAT should be included in the VAT reconciliation.

18. Perhaps using a wizard format similar to the ITR12 asking questions regarding the invoicing of rebates, whether the taxpayer imported or exported during the year, etc would make the form more relevant to the particular taxpayer’s circumstances and therefore easier to understand.

19. Row 13 (total supplies excluding zero rate/exempt supplies per VAT201 periods: to be calculated by dividing Total output VAT per VAT201 periods by the applicable rate) and Row 19 (total acquisitions per VAT201 periods: to be calculated by dividing Total input VAT per VAT201 periods by the applicable rate) is now required to be manually calculated and inserted. In the past, this was automatically populated, possibly due to the VAT rate change. It would be useful if this could be automated for periods after the VAT rate change, to save valuable time and to avoid errors in calculation.

20. Submission: These fields should automatically populate by an automatic calculation of the amount.

VAT - Alternative costing models

21. The information required for the reconciliation is not available via various ERP systems - the systems cannot be designed to accommodate this. The cost and time involved in preparing the input tax reconciliation is disproportionate to the benefit thereof. Currently, this part of the reconciliation is very complex and even on submission, very little feedback is received from SARS regarding the suitability and format of information disclosed in this section, to taxpayers in general.

22. Submission: It would be useful to first understand what this reconciliation is being used for in order to ensure the design of the form achieves SARS intention in this regard.

23. Alternatively, it would be helpful if SARS is willing to accept alternative forms of the reconciliation in order to achieve the results that SARS are looking for.

24. Matching the input VAT credit to the usage of trading stock or other balance sheet items is a challenge depending on the type of business. For example, a manufacturing business will purchase inputs like packaging and raw materials and claim the related input tax in the month of purchase.

25. The stock purchased is recognised on the balance sheet with no corresponding expense to the income statement, if not sold or used in the process of manufacture by year end.

26. When the items are utilised in the manufacturing process, the cost is transferred from the balance sheet and recognised as cost of sales in the income statement. The input tax related to this cost of sales entry has been recognised in a previous VAT period or even possibly a previous financial period. Current ERP systems in use in South Africa do not have a functionality that allows one to trace the cost of sales to the input tax claimed. This limitation means that it is not possible to identify in which period the input tax related to a cost of sales entry was claimed. Hence, reconciling the input tax to cost of sales in a manufacturing entity poses a significant challenge.

27. Further to the point above that identified the problem that manufacturing entities encounter when trying to link the cost of sales recognised to the input tax claimed on that cost of sales entry, is the issue of standard costing.

28. Businesses using a standard costing model will transfer the input items, for example packaging and raw materials, at a standard cost to cost of sales in the income statement. This presents many challenges when trying to reconcile the input tax claimed to the cost of sales as the input tax claimed is calculated on the actual purchase price, but the cost of sales entry is based a standard costing calculation.

29. Submission: We propose that SARS investigates ways in which the IT14SD can cater for the different stock costing systems – (for example, standard costing and periodic costing) used by taxpayers, to take into account the challenges noted above. If the form is set up

according to these categories, the information produced may be more meaningful and easier to disclose as compared to the current design.

VAT - Service Entities

30. Cost of sales is not a useful metric for service industries as service industries sell time, making the reconciliation on input tax to cost of sales a meaningless reconciliation.

31. Submission: We propose the introduction of sector specific forms or a wizard question allowing a taxpayer to distinguish between services or non-service sectors resulting in the appropriate fields being displayed (for example, there is no cost of sales field for the services sector). This would not only streamline the process but would also produce clearer, more relevant information.

32. It will also be useful to include a separate section for disclosure of ‘Other Income’ which is not catered for in the current format of the form.

PAYE

33. Some systems are able to handle the information requirements well, whilst other systems are not able to provide the information where the financial year differs to the PAYE tax year - i.e. the systems don’t work well with differences between the EMP501 reconciliation form time cycles and the years of assessments for companies.

34. This requires significant manual intervention to extract payroll data and then match this to information in the general ledger.

35. Even in circumstances where the system handles the information requirements well, there are still potential problems when the IT14SD is required to be completed after system changes have been implemented.

36. Fringe benefits can also cause large reconciliation issues if the taxpayer doesn’t have a system that can split them from the cash payments. However, these are practical matters that each taxpayer needs to take into account to ensure ease of availability of the correct information and accurate disclosure.

37. Whilst it seems that this section is easier to populate as compared to the others and from a taxpayer view appears to add the most value to the reconciliation process, given that SARS has not provided much feedback to taxpayers once the IT14SD has been submitted, it is unclear as to the SARS view regarding the effectiveness of this reconciliation for the purpose of its information gathering procedures.

38. Submission: It would be useful to understand what this reconciliation is being used for in order to ensure the design of the form achieves SARS intention in this regard.

Customs and Excise

39. A screenshot of the relevant section is included for ease of reference.

40. There is a perception that this reconciliation adds no value to the process in any way due to various deficiencies as noted below.

IT14SD Customs Submission: Imports		
Customs Reconciliation Schedule		
Imported Goods: Provide details in the Reconciliating items section if applicable		
Field 1	Total value of imported goods as per Customs declarations (per SAD 500)	
Field 2	Total imported goods included in Cost of Sales as per ITR14	
Field 3	Total goods imported as per VAT 201's (15A in VAT 201)	

41. In respect of the Field 1 reconciliation to Field 2: VAT; the value of imported goods per the SAD 500 includes the 10% upliftment and import duties. The value of the goods included in Cost of Sales is an accounting valuation and hence will not include the 10% upliftment VAT or import duties and is not relevant to calculating the Input VAT claim.

42. The valuation of the goods for the basis of the SAD 500 and the recording of the goods in the general ledger Cost of Sales account will in all likelihood be carried out on different dates, hence there will always be reconciling foreign exchange differences between the two amounts, amongst others, as the foreign tax amount is translated into Rand's at different forex rates for the two different calculations.

43. Field 1 mentions "total value of imported goods as per Customs declarations" and it is not immediately clear as to whether this line should include capital and other imported goods or imported goods only. Taxpayers, due to lack of clarity, then include the value of all imported goods (capital and other) in Field 1 and then the value of capital goods becomes a reconciling item to the Field 2 value as capital imported goods are not included in Cost of Sales in the general ledger.

44. The reconciliation of these amounts hence adds no value to verifying the accuracy of the Input VAT claimed in the VAT 201.

45. With regards to Field 3: Total goods Imported as per VAT 201's (15A in VAT 201) - Line 15A in the VAT 201 represents the actual Input VAT claim. However, Field 3 per the IT14SD requires the total value of imported goods as per line 15A in the VAT 201. This then requires a detailed calculation to gross up the input VAT amount per the VAT 201 to determine the value of the goods imported. This is a very burdensome exercise for entities that have a significant volume of imports.

46. Once the calculation to determine the value of the imported goods is completed, this calculation adds little value to determine if the Input VAT claim per the VAT 201 is accurate or reasonable.

47. Submission: The Fields need to be reviewed in light of the purpose of the Customs Import recon. If the purpose of the Customs Import reconciliation is to determine if the Input VAT claim is accurate and is supported by a SAD 500, then we believe the following fields should be considered:

- Input VAT amount per the Customs Declaration (per SAD 500)
- Input VAT amount per the VAT 201

48. The form does not consider imports that are capital in nature and it is unclear as to how one would categorise or disclose the different expenditure - that is, capital expenditure versus operational expenses.

49. Submission: Firstly, it would be useful if SARS could share some insight as to the value that they perceive to be added to their process, by the information disclosed (in the current format) in this part of the IT14SD form.

50. SARS should consider a separate line item for capex or specifically exclude capex from Field 1. Suggested wording - Total value of imported goods as per Customs declaration (SAD 500), excluding capex.

Other - Impact of IFRS 15

51. It is unclear as to whether or not the impact of IFRS 15 - Revenue from Contracts with Customers - has been considered in the design of the IT14SD.

52. IFRS15 affects revenue recognition from contracts with customers. Contracts with customers must be identified and the separate performance obligations must be identified. The transaction price must be allocated to each separate performance obligation and the revenue must be recognised when each performance obligation is satisfied. Revenue recognition may differ from the billing arrangement resulting in a mismatch between the output tax recognition and the revenue recognition. Output tax will be levied per invoice; hence it is based on the billing arrangement whilst the revenue for accounting purposes will be recognised at each performance obligation stage.

53. Specific sectors that will experience these challenges include the following:

    a. Telecom entities: These entities provide free goods and services and goods and services for a discounted price which might be viewed as separate performance obligations. They frequently change selling prices (for example, for handsets) and this results in different amounts being allocated to similar goods included in different contracts.

    b. Technology entities: Renewal options may be seen as separate performance obligations.

    c. Media and entertainment entities: Detailed analysis of licensing agreements is necessary to identify whether multiple performance obligations exist and what revenue recognition pattern is appropriate.

d. Automotive, Retail and Consumer product entities: Cash incentives and incentives to provide free or discounted goods may be viewed as separate performance obligations rather than marketing incentives.

e. Promises to provide a good or service in the future, assurance-type or service-type warranties, loyalty programs, reseller agreements and licensing and franchising agreements: These may be seen as separate performance obligations.

f. Software entities and real estate entities: When determining the transaction price, the main challenge will be the determination of the variable consideration given a variety of factors.

54. General Factors: The accounting for contract modifications can be complex and will differ significantly depending on whether a new performance obligation is created and on the pricing.

55. Extended payment terms may result in recognition of interest revenues.

56. Due to the variety in prices and service offerings, the divergence between billing and accounting will lead to additional and complex system requirements and may require modifications to cater for the information required for the IT14SD form.

57. <u>Submission</u>: the current IT14SD form is unlikely to account for all of the above complexities. Any redesign of the form must take the above into account to ensure that the information disclosed is relevant for use.

Conclusion

58. It is unclear as to what triggers a request for completion of an IT14SD as it appears that some companies have to complete these forms every year, whilst some have never been required to complete these since the forms were first implemented.

59. Often, following submission of the IT14SD, there is no further correspondence from SARS as to whether they are satisfied with the information submitted and, therefore, there is a perception that these forms are not always used, whereas for the taxpayer they are intensely time consuming and costly to complete.

60. The IT14SD is not designed to account for the different types of businesses and the accounting systems used by business.

61. <u>Submission</u>: It will be appreciated if SARS will take the above concerns and suggestions into account. Educating taxpayers as to the purpose of the form as well as its potential triggers, would perhaps make its completion less frustrating.

62. Furthermore, it would be useful to understand how the forms are used by SARS and whether SARS believes that it is useful in its current format given the concerns raised.

63. Perhaps simplification of the reconciliation process and/or form as a whole may be considered as part of the ongoing SARS Modernisation Programme.