



JOHANNESBURG STOCK EXCHANGE
Equity Market

Member workshop– Tax on Dividends

Presenter

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Date

13 August 2012

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■ AGENDA

- Legislative Issues
- BDA Processing
- Reporting to SARS
- Way Forward



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JOHANNESBURG STOCK EXCHANGE
Equity Market

■ AGENDA

➤ Legislative Issues

- Partnerships and Joint accounts
- Warrants
- ETF's



■ AGENDA

➤ BDA processing

- Local Dividends
- Foreign Dividends
- Adjustment processing
- SLB
- Rounding
- BDA Changes required



■ AGENDA

➤ Reporting to SARS

- Rounding
- Adjustments
- Current BDA reporting not adequate to assist members with their reporting
- Files not produced on time
- Uploading of DT files to SARS



■ AGENDA

- Legislative Issues
- BDA Processing
- Reporting to SARS
- Way Forward



■ AGENDA

➤ Legislative Issues

- Partnerships and Joint accounts
- Warrants
- ETF's



■ Tax on Dividends – Legislative

Legislative issues

- Member has an account for a partnership where both partners are registered companies. The partnership however is not registered with SARS. As both partners are exempt (both are companies), how do you load this in BDA and report to SARS
 - Suggested solution – Load account as Partnership in BDA. As both parties of the partnership are companies, load this account on TAXEX with exemption code 'A'
 - Keep in mind that SARS requires documentary proof of the exemption, which members should have for both parties being registered companies

■ Tax on Dividends – Legislative

Legislative issues cont...

- Member has joint account, but only 1 ID can be loaded in BDA
 - SARS only require 1 ID number to be reported on DT file
 - Suggest we add a ID field to NAMNT
 - Members can then link the two accounts, one account loaded on CLMNT and another on NAMNT, via ARMNT using the relationship code LA – Linked Accounts
 - If members require a solution immediately, suggest members load 2nd account on CLMNT and link the two CLMNT accounts as above

■ Tax on Dividends – Legislative

Legislative issues cont...

➤ Warrants

- Workshops were conducted with Warrant Issuers and following was agreed:
 - Warrants will track the underlying and Warrant issuers will issue the same dividend as what was declared for the underlying



■ Tax on Dividends – Legislative

Legislative issues cont...

➤ Warrants cont...

- Although not a legislative issue, some CSDP's are withholding 15% DT before paying out to members
- This creates a problem as members may have clients that are exempt. Members can then not balance as the amount received for the CSDP is less to what the member has to pay back to their clients resulting in the member being out of pocket
 - JSE will discuss this with the relevant CSDP and revert back

■ Tax on Dividends – Legislative

Legislative issues cont...

➤ ETF's – How does the flow work?

- Underlying Company pays ETF Issuer
- ETF Issuer Pays ETF holder and withhold 15%
- ETF's issuers can pay Dividends, Interest or Other type of payments
 - JSE loads separate events and only the cash dividend is subject to DT. Interest payments are currently not subject to DT



■ Tax on Dividends – Legislative

Legislative issues cont...

➤ ETF's cont...

- ETF's can consists of local and foreign listed companies
 - We have seen that ETF issuers split the dividend between a local dividend and a foreign dividend
 - Although there is a split, there are still some issues relating to the processing e.g.:
 - » STC – Some companies as part of an ETF, might have had an STC credit
 - » For a foreign dividend there could be a Foreign tax rebate in one of the foreign companies

■ Tax on Dividends – Legislative

Legislative issues cont...

➤ ETF's cont...

- STC – Proposed solutions
 - ETF issuer adds all the local dividends to get to a gross dividend rate. ETF issuer then adds all the STC credits if any where applicable for any listed company that forms part of an ETF and declares a 'blended' STC rate
 - » This does however still present an issue for the ETF issuer in terms of their reporting to SARS

■ Tax on Dividends – Legislative

Legislative issues cont...

➤ ETF's cont...

- STC – Proposed solutions
 - ETF issuer groups dividends together that are the same e.g. all dividends where no STC is applicable gets declared as a single dividend payment
 - All dividends where STC is applicable is declared as individual dividends i.e. one for each listed entity where STC was applicable

■ Tax on Dividends – Legislative

Legislative issues cont...

➤ ETF's cont...

- STC – Proposed solutions
 - An alternative solution would be for an ETF issuer to pay a separate dividend for each underlying companies
 - This however is not at all feasible due to the amount of administration and costs associated



■ Tax on Dividends – Legislative

Legislative issues cont...

➤ ETF's cont...

- Foreign dividends – Proposed solutions
 - Even by declaring a separate foreign dividend, there could be a scenario where one of the foreign companies might have a foreign tax that was deducted which is greater than the 15% withholding tax. In this scenario, no tax should be withheld on this specific foreign listed company
 - Suggested solution in a scenario as above, would be for the ETF issuer to process these as separate foreign dividends i.e. separate the foreign dividends where no foreign tax is deducted

■ AGENDA

- Legislative Issues
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■ AGENDA

➤ BDA Processing

- Local Dividends
- Foreign Dividends
- Ability to differentiate between local vs. foreign dividends
- Adjustment processing
- SLB
- Rounding
- BDA Changes required



■ Tax on Dividends – BDA Processing

Issues/concerns/requests raised

- Where DTA is applicable, BDA automatically process the dividend at the reduced rate regardless of whether the client has provided the member with the required signed documentation
- Incorrect DTA rate used for some dividends e.g. Switzerland
- Clarification is required on how members must load the various exemptions that apply for local and foreign clients relating to local vs. foreign dividends



■ Tax on Dividends – BDA Processing

Issues/concerns/requests raised

- Members are not able to differentiate from the BDA journal entries if a dividend is paid from a Local company vs. Foreign company. Members want to be able to see this on both the journal for the gross dividend and the journal for the tax entry.
- Members want to be able to see when a dividend is paid from Local funds and when it is paid from Foreign funds e.g. OML and AGL that was paid from local funds
- Members are not able to differentiate in BDA when a dividend that is paid was subject to Dividends Tax vs. where a entry in BDA was not subject to Dividends Tax

■ Tax on Dividends – BDA Processing

Processing issues cont...

- Will BDA cater for partial exemptions in future?



■ Tax on Dividends – BDA Processing

Local Dividends –

Let's cover how the following is done in BDA for Local Dividends

- Exemptions as per section 64E
- Reduced Tax for Foreign clients
- Where clients holds certain % of holding
- DTA – Double Taxation Treaty



■ Tax on Dividends – BDA Processing

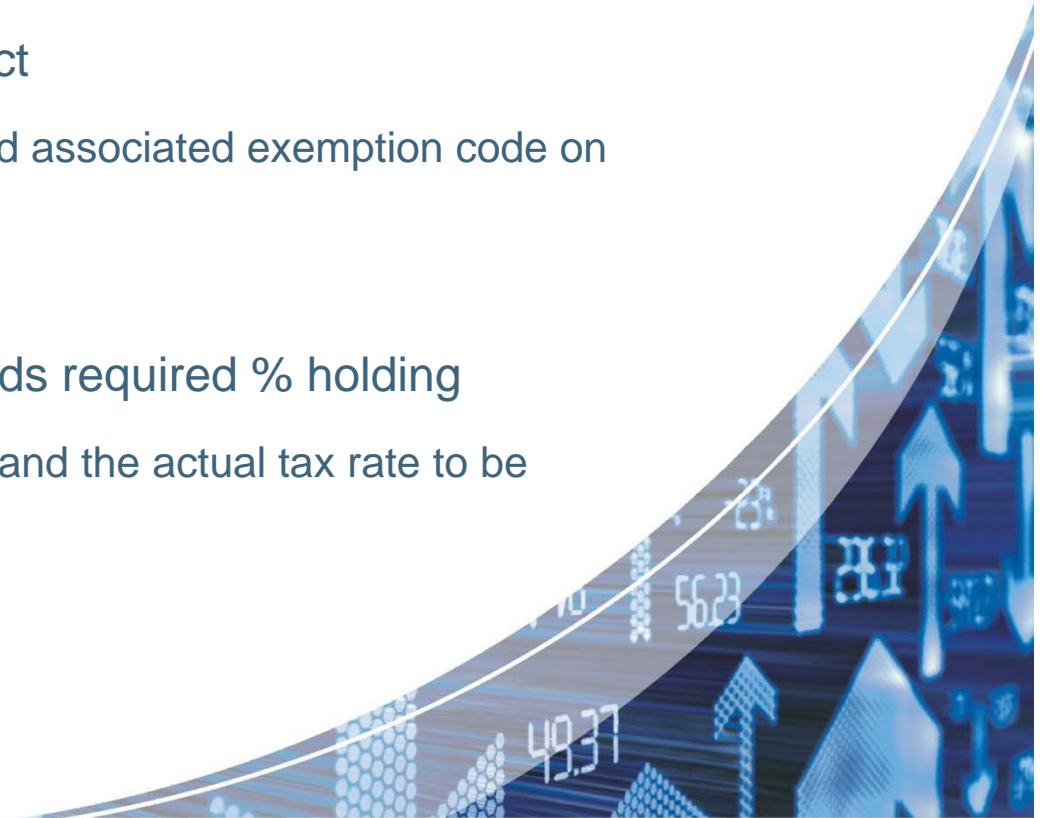
Local Dividend cont...

➤ Exemptions – Section 64E of the Act

- Members must load client account and associated exemption code on TAXEX

➤ Reduced Tax Rate where client holds required % holding

- Member must load the client account and the actual tax rate to be applied on the on-line screen ENTDT



■ Tax on Dividends – BDA Processing

Local Dividend cont...

- DTA – Double Taxation Agreement between SA and country of foreign client residency
 - JSE maintains table in back-end on BDA where the SARS DTA table is updated
 - Where a DTA exists between SA and a foreign country and the client is resident in this country, Members have to load client account number and the country of residence on the on-line screen TAXID
 - BDA will match the country code loaded on the on-line screen TAXID and match the country code to the SARS country code. If country code matches, the reduced tax rate as per the SARS DTA table will apply.
 - Members must use the BDA country code on TAXID

■ Tax on Dividends – BDA Processing

Foreign Dividends

Let's cover how the following is done in BDA for Foreign Dividends

- Where a client is exempt i.e. non-resident client:
 - Members must load the client account number on TAXEX with exemption code 'J'
 - Exemption code 'J' can also be used where the BDA account is loaded as a local account, but the client is Tax resident in foreign country

■ Tax on Dividends – BDA Processing

Foreign Dividends cont...

Let's cover how the following is done in BDA for Foreign Dividends

- Reduced Tax Rate where client holds required % holding:
 - Member must load the client account and the actual tax rate to be applied on ENTDT
 - As the exemption is related to the % holding, the reduced rate must be loaded for each event as it can not be assumed that the reduced will always apply. The client when the next dividend is paid, might not hold the required % holding

■ Tax on Dividends – BDA Processing

Processing issues cont...

➤ Answers....

- Each instrument in BDA is loaded with a country code which is available on INSTM and also on card code 92 of the BDA dissemination file. If a company pays a dividend, the dividend is either local or foreign depending on the country code of the instrument. So if e.g. AGL pays a dividend, the country code for AGL on INSTM is UK. Therefore this will be a foreign dividend.
 - Do members require any other identification?
- So how do you know if a foreign company pays from local funds?

■ Tax on Dividends – BDA Processing

Processing issues cont...

➤ Answers....

- On B5ACICS on the Entitlements Broker Header (BRHDR) screen the following field has been added:
 - Local/Foreign – This field will indicate if a dividend is paid as a local dividend or foreign dividend
 - » If a foreign company e.g. pays a dividend as local funds, this field will be populated with the country RSA indicating local funds were used
 - » If the dividend is paid as a foreign dividend, this field will be blank

■ Tax on Dividends – BDA Processing

Processing issues cont...

➤ Answers....

- Local/Foreign field cont...
 - If e.g. STXRAF pays from local funds, the country code will be blank
 - If STAFRAF pays a foreign dividend from the UK, the country code will be UK



■ Tax on Dividends – BDA Processing

Processing issues cont...

➤ Answers....

- Need to discuss why members will need to differentiate between a dividend entry that was subject to tax vs. dividend entry that is not subject to tax?
 - If the above is as a result of the requirement that SARS has to report on the DTR02 form, this will be handled later under the Reporting section



■ Tax on Dividends – BDA Processing

Processing issues cont...

➤ Answers....

- Partial exemptions
 - This relates to Trusts where some of the investors are exempt and some are n
 - This question was raised with SARS before. SARS response was that members must open separate account
- Suggest we table this for discussion with National Treasury and SARS on the practical complications of opening multiple accounts

■ Tax on Dividends – BDA Processing

Adjustment processing

➤ There are 3 aspects to adjustments

- Adjustments done with-in a week after Pay Date, i.e. Before the files are created
- Adjustments after the DT file has been created but before the reporting has to be done
- Adjustments that are done after reporting has been done. This is normally where a client might provide a signed declaration form for a dividend that was paid 3 months ago



■ Tax on Dividends – BDA Processing

Adjustment processing

➤ There are 3 aspects to adjustments cont...

- One the 1st scenario the JSE is investigating the development of a BDA on-line screen which will allow members to make any adjustments within the 1st week after Pay Date. Any adjustments will then be corrected automatically in the DT file before it is created
- On the 2nd and 3rd scenarios, once the DT files have been created, members will need to manually add an adjustment when they complete DTR02 form

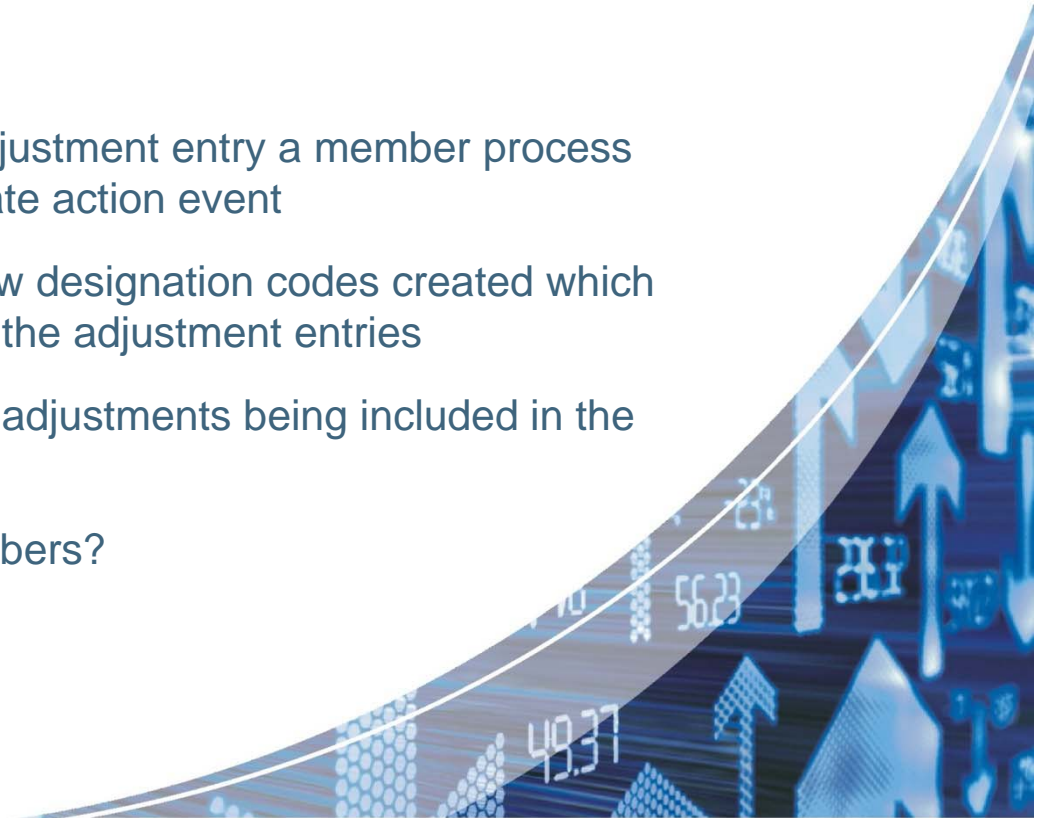


■ Tax on Dividends – BDA Processing

Adjustment processing

➤ Answers

- It is not possible for BDA to link an adjustment entry a member process to the original transaction and corporate action event
- We suggest members use the two new designation codes created which will at least allow members to identify the adjustment entries
- This however still will not result in the adjustments being included in the SARS file
- What else can be done to assist members?



■ Tax on Dividends – BDA Processing

Adjustment processing

➤ Answers

- It is important that on each BDA transaction the following data elements can be included when BDA generates each transaction i.e. on each journal entry:
 - CA Type
 - CA Sequence number
 - Pay Date
 - Local of Foreign dividend
 - Flag that member can indicate entry is a refund
 - If DT is applicable on the dividend entry

■ Tax on Dividends – BDA Processing

SLB

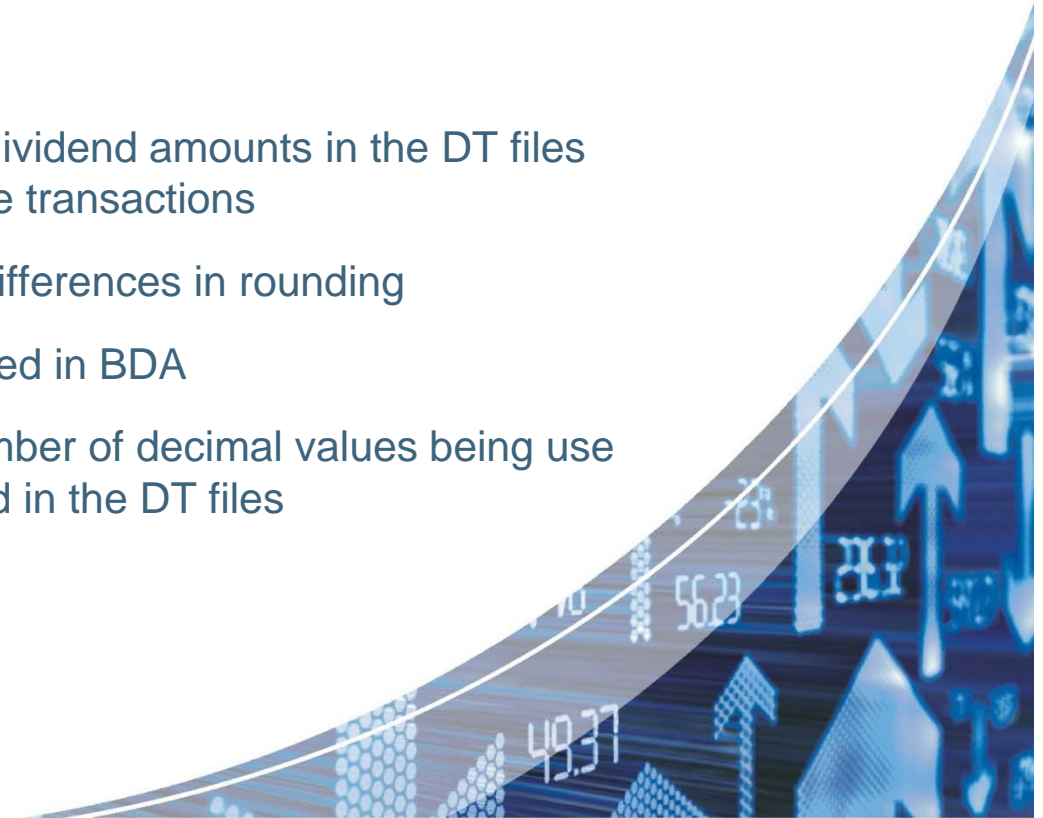
- BDA only processes the gross dividend and NO tax is calculated
 - All SLB related dividends are manufactured dividends and is reported separately as Income
 - The processing can be very complicated e.g. A scenarios exist where members can have one Lender to multiple Borrowers or multiple Borrowers to one Lender
 - Each Lender could have different exemptions that apply to them
- Questions - should we stop the processing of all SLB dividends?

■ Tax on Dividends – Reporting

Rounding

➤ Rounding rules

- Members have raised that when the dividend amounts in the DT files does not always balance to the on-line transactions
 - JSE needs to investigate the differences in rounding
- Standard rounding methodology is used in BDA
- Difference might be related to the number of decimal values being use for on-line processing vs. what is used in the DT files



■ Tax on Dividends – BDA Processing

Requested BDA Changes

- Two fields to be added to CLMNT to allow members to flag if a member has received signed documentation for:
 - Reduced rates and
 - Exemptions
- If these fields are added to CLMNT, will members also require this in dissemination?



■ Tax on Dividends – BDA Processing

Requested BDA Changes cont...

- Add a field on the Entitlements Due By LDT screen to display the STC?
- There is no space on the existing screen to add the STC rate.
 - Will it be sufficient if we add an ‘*’ in front of the Dividend Rate on the Entitlements Due screen to highlight that there is an STC credit applicable
 - If there is an ‘*’ displayed, this will indicate to the user that and STC credit is applicable to this dividend. Users can then use the exiting past path key – PF6 to access the BRHDR screen where all data pertaining to that dividend is displayed

■ AGENDA

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- BDA Processing related issues
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■ AGENDA

➤ Reporting to SARS

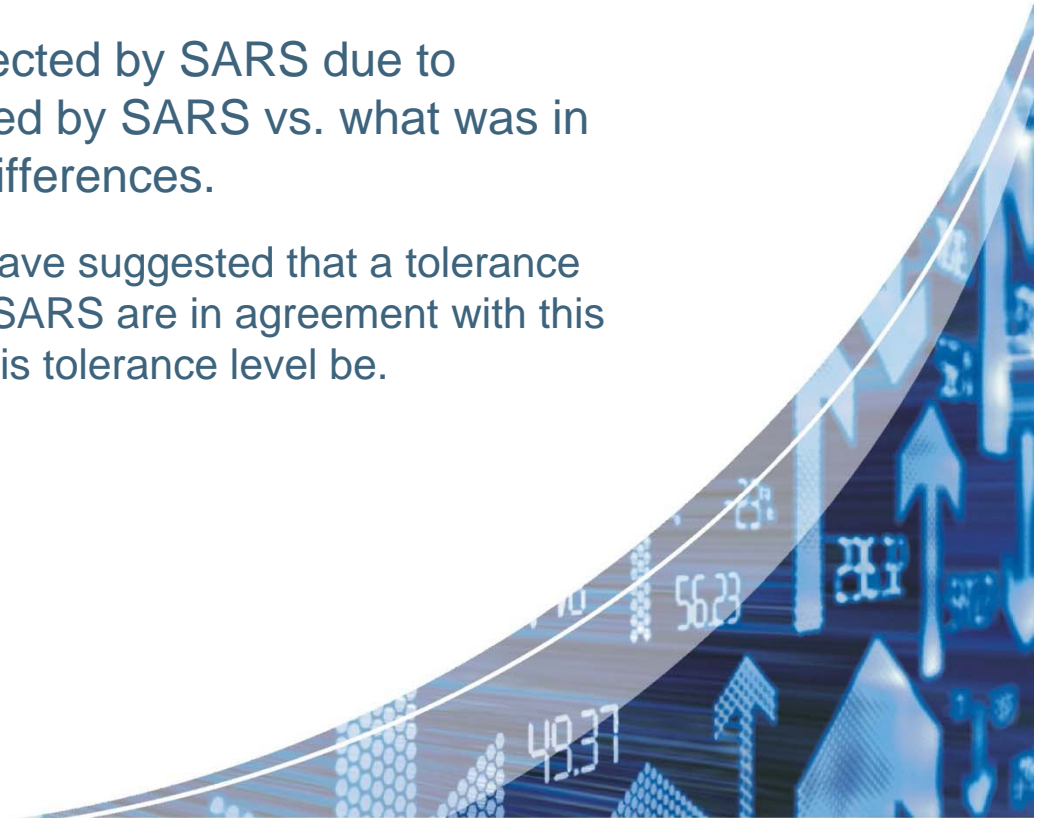
- Rounding
- Adjustments
- Current BDA reporting not adequate to assist members with their reporting
- Files not produced on time
- Uploading of DT files to SARS



■ Tax on Dividends – Reporting

Rounding

- In testing with SARS, files were rejected by SARS due to differences in the amounts calculated by SARS vs. what was in the file. This was due to rounding differences.
 - We have raised this with SARS and have suggested that a tolerance level be set for rounding differences. SARS are in agreement with this and it is a question of what should this tolerance level be.



■ Tax on Dividends – Reporting

BDA reporting not adequate to assist members

- Members find it very difficult to complete the DTR02 form doing their DT payments and returns
- Refunds are not included in the SARS files
- Will BDA generate a tax year-end report of all clients dividends and tax?
- Tax files are not produced on time to allow members sufficient time to complete their DT payments



■ Tax on Dividends – Reporting

BDA reporting not adequate to assist members cont...

- Tax files should be produced by counter and not aggregated across counters
- SARS to provide contact number or course on how to complete the DWT form correctly



■ Tax on Dividends – Reporting

BDA reporting not adequate to assist members cont...Feedback

- Let's understand the process as intended by SARS for reporting
 - The files produced by the JSE was meant to be uploaded to SARS from May 2012
 - On completing the upload, SARS would automatically populate the DTR02 form based on the information contained in the file
 - Members would then have to confirm the information
 - If any adjustments were required, members would have been able to capture the adjustment value into the Adjustment field on the DTR02 form

■ Tax on Dividends – Reporting

BDA reporting not adequate to assist members cont...Feedback

➤ Why all the issues?

- The JSE never planned to create any data or reports in the DTR02 form as we would have been ready with the files in May
- Due to the fact that SARS has not gone live yet with the uploads, members are required to manually complete the DTR02 form
- As a result, members are required manually work out all the values as per the DTR02 form
- Also the Adjustment field is grayed out and can not be completed by members
 - So how do members enter adjustments?

■ Tax on Dividends – Reporting

BDA reporting not adequate to assist members cont...Feedback

➤ What is the JSE doing to help members?

- The JSE provided members with the SARS guidance document which explains how the DTR02 forms must be completed
- Although this might explain the process and what each field is, it still does not assist members with the actual values required to be populated into these fields
- The JSE had a meeting with SARS on the 1st of August where this current frustration experienced by members were explained
- SARS provided the JSE with the calculation rules that are used by the SARS system to calculate the values as per the DTR02 form

■ Tax on Dividends – Reporting

BDA reporting not adequate to assist members cont...Feedback

- What is the JSE doing to help members cont...?
 - The JSE has provided these calculation rules to Con42 and have asked them to create a BDA report that will provide the values as per the DTR02 form based on the calculation rules provided by SARS
 - Even this has it challenges.....



■ Tax on Dividends – Reporting

BDA reporting not adequate to assist members cont...Feedback

➤ What is the JSE doing to help members cont...?

- The JSE currently produces a file per 'Pay Date' a week after each Pay Date
- The files that must be used by members for reporting to SARS is based on files where the Pay Date is from the 1st of the previous month to the last day of the previous month (Calendar month)
- Therefore the report that the JSE will create will have to be across all the files created with-in the previous calendar month i.e. reporting period
- Question to members - Will above be fine, or should the JSE look at creating a report that covers the full reporting period?

■ Tax on Dividends – Reporting

BDA reporting not adequate to assist members cont...Feedback

➤ DT files not created in time

- In June, when testing with SARS, the Issuer Tax number was a mandatory field and test files submitted by the JSE were rejected
- We did not have all the required issuers Tax numbers and had to get this information and load in on our tables in order to include the tax numbers in the DT file
- SARS has since then made a decision that the Tax number for the issuer will only be made mandatory at a later stage
- Once this was known by the JSE, we continued to produce the files

■ Tax on Dividends – Reporting

BDA reporting not adequate to assist members cont...Feedback

➤ DT files not created in time cont...

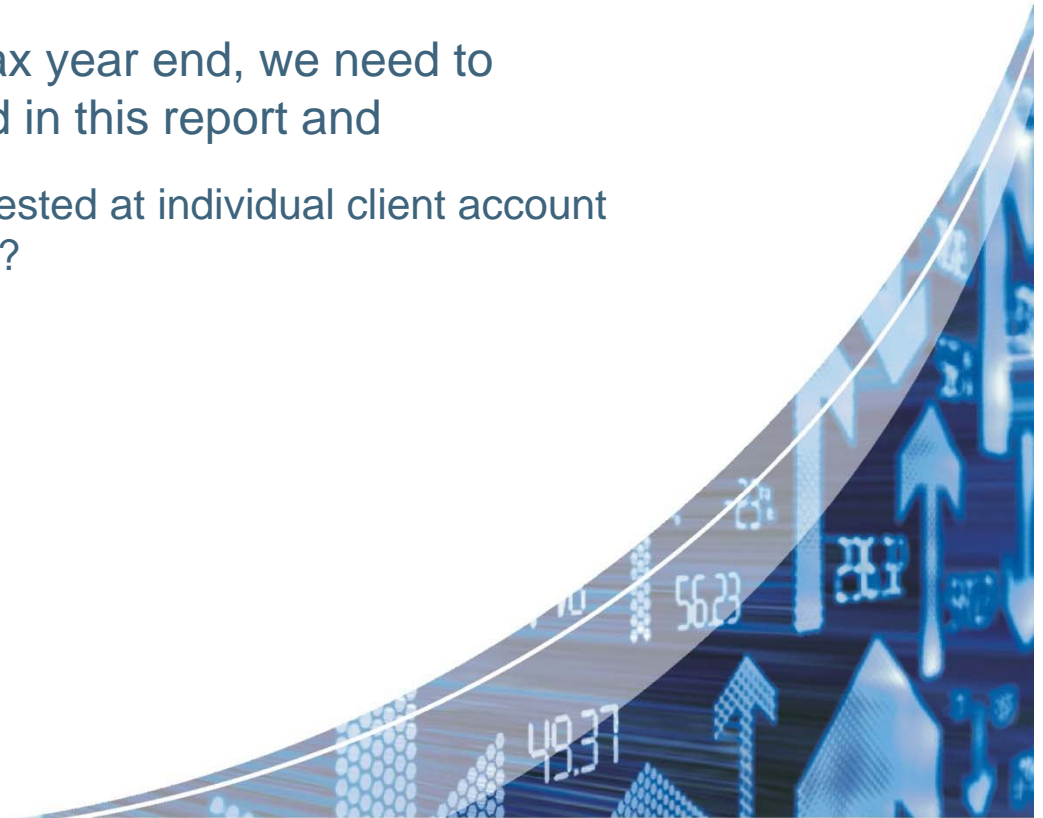
- Going forward, the DT files will be created 1 week after the Pay Date and placed on the FTP site which members can then download
- So hopefully their will not be the same delays as experienced by members during June



■ Tax on Dividends – Reporting

Will JSE create year-end tax report

- If JSE needs to create a report at tax year end, we need to confirm what information is required in this report and
 - Should it be a report that can be requested at individual client account level over and above at member level?



■ Tax on Dividends – Reporting

Will JSE create year-end tax report cont...

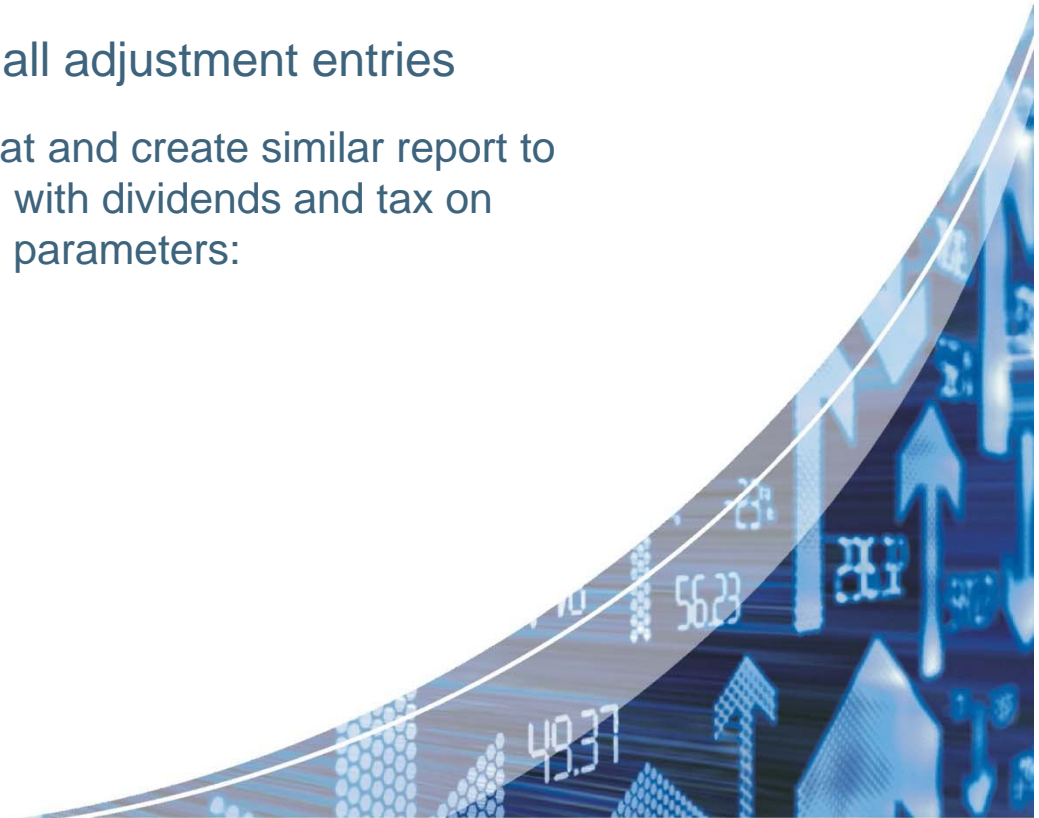
- Keep in mind that the JSE is currently producing IT3(b) tax certificates which includes dividend information
- Suggest the DT working group table this as a discussion item with National Treasury and SARS. Does SARS still require IT3(b) tax certificates to include dividends as this is already extensively reported on via the DT files?



■ Tax on Dividends – Reporting

Additional BDA reports to assist with DT information

- Members require a report to reflect all adjustment entries
 - Suggest we use current PFINTR format and create similar report to extract only journal entries associated with dividends and tax on dividend entries and add the following parameters:
 - From Date
 - To Date
 - Designation Code
 - » All or specific



■ Tax on Dividends – Reporting

Additional BDA reports to assist with DT information

- What data should be displayed on this report?
 - Header section per event with the following fields:
 - » Instr- Alpha - CA Type - Seq nu
 - » LDT - RD - Pay Date
 - » Div Rate - With Holding Tax - STC
 - » Foreign Tax Rebate - SA Tax Rebate
 - » Local or Foreign Dividend
 - » Local Funds or Foreign Funds

■ Tax on Dividends – Reporting

Additional BDA reports to assist with DT information

- After each header section per CA event, list all entries per account:
 - Account number
 - Account Name
 - Transaction Date
 - Designation Code
 - Narrative
 - Amount



■ Tax on Dividends – Reporting

Additional BDA reports to assist with DT information

- It is important to understand that the Tax entry in BDA is a stand alone entry and is not linked to gross dividend entry
- Therefore with-out making major changes to BDA, we will not be able to link the tax amount to the gross dividend



■ Tax on Dividends – Reporting

SARS Call Centre can't help members

- Members feel that the SARS Call Centre can't help them with their queries and have asked that contact details be provided for SARS staff that are in a position to answer questions from the members
- In the interim, any specific questions can be forwarded to a designated JSE e-mail group where the JSE will then forward these to SARS directly
- E-mail group to be used is Divtax@jse.co.za

■ AGENDA

- Legislative Issues
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■ Tax on Dividends – Way Forward

- Need to create a very small DT working group, not more than 4 representatives from the broking community and preferably someone who understands the Act and the practical challenges members are experiencing
- This working group will then discuss and agree items to be tabled with National Treasury and SARS for discussion
- Working group will be responsible for meeting with National Treasury and SARS
- JSE will be responsible for all feedback to broking community
- Nominations can be submitted to Chrisg@jse.co.za

■ Tax on Dividends – Way Forward

- We need to agree what are the most important issues members would like the JSE to address 1st
- Any other items must also then be prioritised by members
- JSE will list all items in order of priority and each member can then provided feedback if they are in agreement with the priority





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