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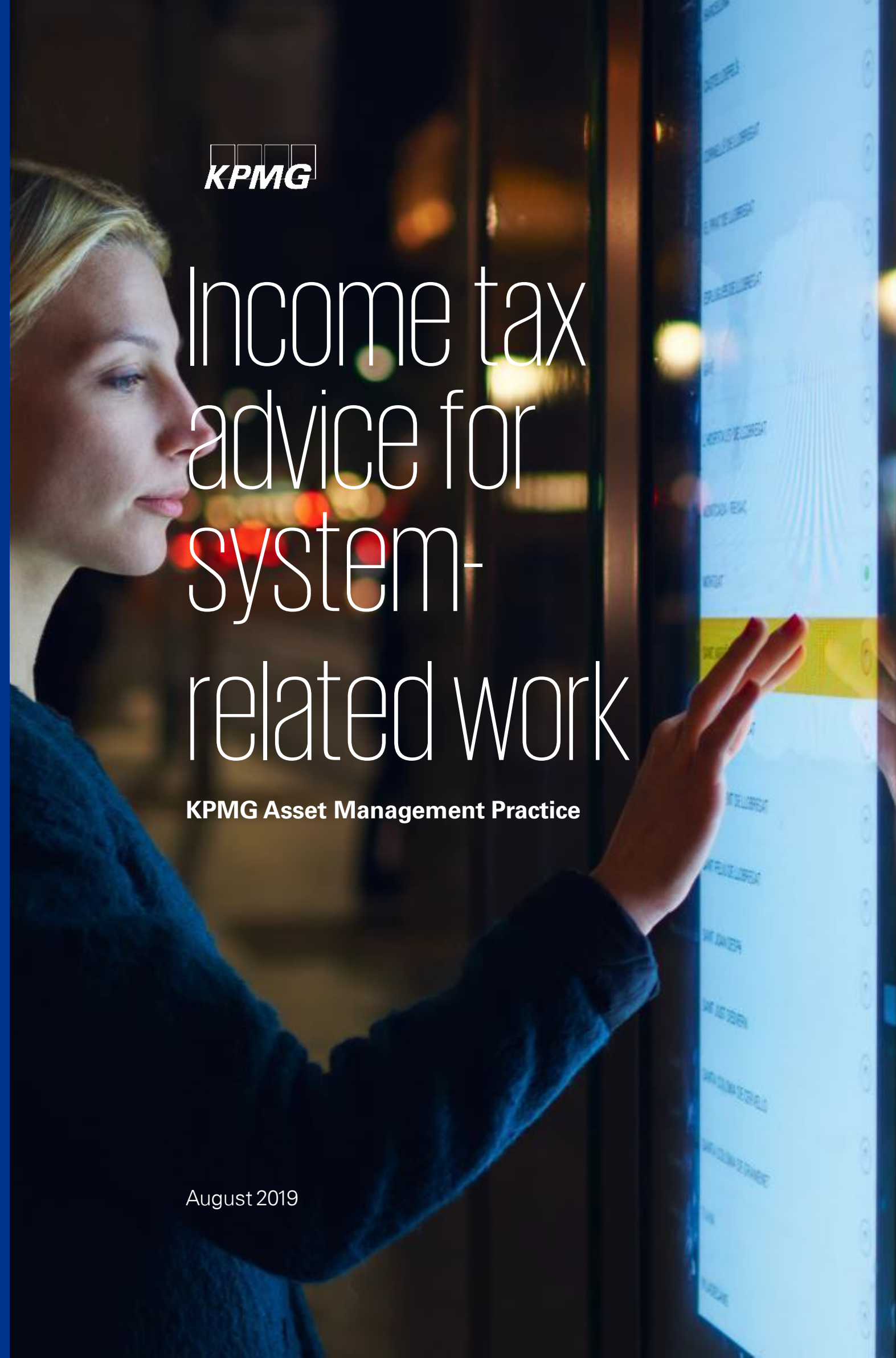


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Income tax advice for system- related work

KPMG Asset Management Practice





Are you responsible for

- issuing IT3(b) certificates to investors; or
- managing funds on behalf of corporate clients and providing monthly or quarterly statements?

DO YOU RELY ON AUTOMATED ELECTRONIC SYSTEMS TO:

- calculate capital gains tax for client and/or financial statement reporting;
- calculate interest in terms of section 24J; or
- testing of the calculation of the dividends tax to be withheld and paid over to the South African Revenue Service (SARS)?

The shift towards automating tax reporting processes has increased significantly over the last few years.

The challenge of placing reliance on an electronic reporting system is that:

- Practical application of Income Tax legislation frequently requires significant judgment and interpretation.
- Inadequacies in system functionality and design are often only identified by evaluating the results of actual transactions and data permutations.

Typically when automated electronic systems are used, a database of information will need to be maintained. SARS and revenue authorities globally have become focussed on analysing systems and data used in reporting capital gains as well as interest and dividends tax information, for both internal and external stakeholders.

Relevant and practical advice

KPMG's tax specialists play an integral part in working with many insurance and asset management clients who are experiencing challenges with regards to system-related tax.

We provide relevant and practical advice on the following:

CAPITAL GAINS TAX

- Review of the methodology applied in determining the base cost of identical assets.
- Test the logic and rationality in regard to the loss limitation rules, such as extraordinary dividends and clogged losses.
- Test the completeness and the interpretation of corporate actions to verify if these have been appropriately recorded on the electronic capital gains tax system for a particular financial year.
- Review of the impact of the mark-to-market provisions in respect of long-term insurers on capital gains tax systems.
- Test the reasonableness of the unrealised capital gains tax accrual at year end.

REVIEW OF INSTRUMENTS

- Identify and review the treatment of various derivative instruments on the capital gains tax systems.
- Translation of foreign currency transactions.
- Review of the methodology applied in calculating and reporting the income attributed from controlled foreign companies.

INTEREST CALCULATIONS

- Review the yield-to-maturity calculated by electronic systems for interest bearing instruments.
- Assess the impact of the calculation of capital gains in respect to interest bearing instruments.

DIVIDENDS TAX

- Review of the implemented process to ensure that

it aligns with the requirements of the Income Tax Act (i.e. all the various stages have been considered)

- Test the completeness and validity of the dividend and beneficial owner information that is captured, maintained and applied in the process.
- Test the calculation of the dividends tax to be withheld and paid over to SARS.
- Review of the information disclosed to SARS.

FATCA / COMMON REPORTING STANDARDS (CRS)

- Assist Reporting Financial Institutions (including unit trusts, hedge funds, private equity funds, certain stockbrokers and certain investment managers) where they have failed to correctly interpret and apply the SA IGA/SA CRS in assessing their "financial accounts".
- Where Financial Institutions have incorrectly interpreted and applied the SA IGA / SA CRS due diligence obligations, we can assist with the design and implementation of appropriate policies, procedures and systems to satisfactorily allow them to meet their due diligence obligations.
- Guide and assist Reporting Financial Institutions with implementing their due diligence processes, procedures and systems (including remediation of the back-book of account holders retrospectively.)

REPORTING

- Generate and/or review of the information disclosed to clients (e.g. IT3(b) and IT3(c) certificates).
- Test the reasonableness of capital gains tax and interest results reported for internal purposes.
- Assist Reporting Financial Institutions who have chosen to apply a manual reporting process to meet filing deadlines with SARS and verifying the accuracy and completeness of these Automatic Exchange of Information (AEOI) returns.

We offer practical recommendations and provide tailored advice to benefit your business.