

# **RFP 14/2023 APPOINTMENT OF SERVICE PROVIDER FOR TRANSFER PRICING FINANCIAL ANALYSIS TOOL**

## **BUSINESS REQUIREMENTS SPECIFICATION**

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## RFP 14/2023

## DATA COPY TOOL

## Business Requirements Specification

This document forms part of the RFP 14/2023 pack. The document sets out the business requirements that SARS has for Transfer Pricing Financial Analysis Tool.

## 1 USAGE OF TERMS IN THIS DOCUMENT

The capitalised terms in this document appearing in the glossary table below will have the meanings given to them in this glossary table.

Term	Meaning
TP	Transfer Pricing
TPFAT	Transfer Pricing Financial Analysis Tool

*Important note to Bidder:* The specifications set out in this document contain mandatory and directory requirements. Where a mandatory requirement is set out in this document (indicated by 'must' in the stated requirement) the Bidder's Proposal must address such requirement. If a Proposal fails to meet or does not address a mandatory requirement, the Proposal may, at SARS's discretion, be disqualified at any stage of the evaluation process as being a non-responsive proposal.

Directory requirements are requirements that serve to guide the Bidder in proposing a solution and consequently may improve a Bidder's score in the evaluation of its Proposal.

## 2 BACKGROUND

SARS is mandated to collect revenues due from the taxpayers and ensure optimal compliance with tax and customs legislation. The Tax Administration Act (TA Act) makes provision for the investigation of non-compliance and serious tax offences. Transfer Pricing, specifically financial service transactions, have become a significant risk area identified by SARS, particularly since the legislation was amended.

With effect for years of assessment beginning on or after 1 April 2012 Section 31 of the Income Tax Act was amended with the introduction of an arm's length test for financial assistance. This means bringing into question both the price and the quantum of the loans therefore any interest deducted from taxable income on the non-arm's length portion of the loan or that exceeds the arm's length price will be disallowed as a deduction. The SARS Transfer Pricing Case Selection and Investigative Audit teams are required to consider the funding structure of South African taxpayers, in particular the arm's length nature of funding provided by offshore related parties to the South African related party in terms of quantum, as well as the appropriate arm's length interest rate.

This differs significantly from the preceding years of assessment which provided the taxpayer with a safe harbour of debt to equity of 3:1. Any related party financial assistance in excess of this safe harbour was deemed excessive and all interest on this excessive financial assistance was disallowed for tax purposes. The determination of what constitutes an arm's length amount of debt requires an analysis of the taxpayer's financial position and the determination of a credit rating. This change in legislation resulted in the need for a financial analysis tool to assist in this regard.

In particular, the tool should be required to determine the stand-alone credit rating of the South African company and the group credit rating to assess implicit support and from there we determine the arm's length debt capacity of the company and appropriate interest rate applicable to related party debt.

SARS has been using a data base to analyse and present a financial analysis to determine the appropriate arm's length funding arrangements of various connected taxpayers. This would include credit ratings, interest rates and peer analysis of the taxpayer's industry.

### **3 MANDATORY REQUIREMENTS**

In addition to the ability to perform a credit rating on a selected company and provide appropriate arm's length interest rates, the database we need should allow for a peer analysis across industries and companies with the same or similar credit ratings and reflect the comparable

dataset or companies in the dataset. The database should also allow for the taxpayer to be evaluated against independent companies in the sector and with the same or similar credit rating. A general peer analysis will include all companies including those who are part of multinational groups. This, while helpful, will not meet the Transfer Pricing requirement of comparing the taxpayer to independent companies.

### **3.1 Affiliation of the Bidder**

A letter of affiliation from a Recognized Statistical Rating Organization (RSRO) confirmation must be furnished by the Bidder or its subsidiaries or group entities.

***NB: SARS reserves the right to validate the information provided.***

## **4 FUNCTIONAL REQUIREMENTS**

We require the most user friendly and comprehensive system that also reflects the comparative data set used so that we can ensure that the entities we have used are indeed comparable and it is recommended that a multi-year license agreement be signed with the service provider to ensure business continuity spanning a period of three years commencing 21 June 2024.

SARS, and in particular the Transfer Pricing Risk and Audit teams require a financial analysis tool and data base to assist in determining a standalone credit rating for South African multinational companies that receive funding from related parties as well as the group rating for the multinational group of companies in line with OECD guidelines. This credit rating is the first step for SARS to determine the arm's length nature of the funding arrangements between connected parties including the quantum of the loan and the interest rate. In addition to the credit rating, the tool should allow for peer group analysis both across industries and at the entity level and should allow for comparison to independent companies.

## **5 TECHNICAL EVALUATION**

### **5.1 Information to be provided for Technical Evaluation**

5.1.1 Print screens of their proposed solution that demonstrate the functionality;

5.1.2 Three (3) contactable references of companies where similar services were provided recently (within the last 5 years);

- 5.1.3 Provide the Business Profile that describes the service offerings, years of experience and capability to deliver and support the Solution to SARS;
- 5.1.4 Implementation plan indicating the time frames for implementing and customizing the Solution to SARS unique requirements; and
- 5.1.5 The nature of support (e.g., telephonic, email etc.) and whether there is local support available.

## **6 IMPLEMENTATION**

The implementation will begin at commencement date to be communicated at the bid offer stage (where the Bidder will be doing a transition) once SARS signs a contract with the recommended Bidder and that an effective date will be that of 21 June 2024.

## **7 SERVICE LEVEL REQUIREMENTS**

- 7.1 The following is expected of the service provider:
  - 7.1.1 User training
  - 7.1.2 The provision of an internet-based solution that meets the functional requirements outlined in paragraph 4 above.
  - 7.1.3 The solution should be able to allow for data visualisation by allowing for development of graphs and pivot analysis.
  - 7.1.4 The solution should be able to synchronise with MS Office including downloading data into Excel.
  - 7.1.5 The solution should provide a full information as to how the information referred to in paragraph 4 was ascertained and which companies the taxpayer was likened to in order to obtain the credit rating and interest rate in question.
  - 7.1.6 Availability of the solution once contracted for should be at 100% for the duration of the contract period.
  - 7.1.7 Ability to report downtime of the solution either telephonically or via electronic channels with a resolution turnaround time of 1 day.

7.1.8 Online support for technical queries with a turnaround time of 2 days.

7.1.9 Updating of the solution for the duration of the contract period to account for the latest financial information of companies within the solution.