

# INTERPRETATION NOTES:

## Dividends Tax Trade Testing

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<b>File Name:</b>	SARS_DividendsTax_Trade Testing Interpretation Notes

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## 1. DOCUMENT MANAGEMENT

### 1.1. Revision History

<b>Revision History</b>			
<b>Date</b>	<b>Version</b>	<b>Description</b>	<b>Author/s</b>
17 July 2012	V1.0.0	Initial version	SARS
23 July 2012	V2.0.0	Add feedback from workshop held on 18 July 2012	SARS
01 August 2012	V3.0.0	Add clarification about the file structure validations	SARS
07 August 2012	V4.0.0	<ul style="list-style-type: none"><li>• Update the definition for Dividend per share</li><li>• Update the Response file structure explanation</li></ul>	SARS
17 August 2012	V5.0.0	Update the Exemption claimed validation	

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## 2. INTERPRETATION NOTES

### 2.1. Field 91 – Group Id

Although this field is designed using the definition of AN (as specified in section 1.2.2 of the external BRS), SARS will also accept dashes "-" (this is to cater for entities that have chosen to make use of a GUID). Please note this is the only exception to the AN definition that will be permitted and only on this field.

### 2.2. Field 65 – Exemption claimed

- The following validation will be added to align the solution with the Dividends Tax legislation:
  - Value may not be "I"
  - If the value is "I", the record will be rejected.
- The following validation will be removed to avoid conflicting validations:
  - b) If Distribution type (field 54) = BO and Tax residency is not ZAF, then value may only be J or blank
- Exemption code Z:

This value may be specified in instances where South Africa is a signatory to certain international agreements in terms of which the United Nations and some of its entities (such as the World Bank) could be exempt from tax under certain circumstances. Code Z obviously has nothing to do with DTAs (since the opposing party would not be a country but some sort of institution/entity) and will depend on the particular entity – it is difficult to give a general rule in this regard as some entities might be completely exempt on all dividends whilst others might only be partially exempt or exempt only with regard to some dividends. They would have to show the RI why and how they are exempt, and it must be determined on a case by case basis.
- Exemption code Y:

This code may be specified in instances where some DTAs have "non-standard" provisions exempting certain entities or parties from tax under certain circumstances – see for example Article 10(8) of the SA/USA DTA which exempts for example the US government, political subdivisions and local authorities as well as their pension funds. Code Y may only be used where there is a DTA with such a specific exemption (very few DTAs have such exemptions). It definitely doesn't apply to all dividends.

### 2.3. Appendix I – Company Registration number validation

The CCYY portion of the validation is changed as follows to accommodate companies that were registered prior to 1900:

- CCYY must be validated to be from **1800** and up and including the current calendar year.

## 2.4. Response file

- The response file has a structure of:
  - H – Header of the response
  - B – Details of errors encountered in the incoming file
  - T – Trailer to balance the file and ensure it is complete
- There should only ever be one header and one trailer row in the file, with one or many body records to report the errors.
- Errors on the header record/s in the incoming file will be reported as follows:
  - Section Identifier = B
  - Row Number = 0
  - Unique Number – The section identifier of the line the field is on i.e. SE, GH etc.
  - Example:  
B|0|SE|Dividend Tax Number|W|005|Accepted with Warning: ...
- Errors on the trailer record in the incoming file will be reported as follows:
  - Section Identifier = B
  - Row Number = 0
  - Unique Number = T
  - Example:  
B|0|T|Total Number Of Records|R|004|Declared Total Number Of Records....

## 2.5. Field 75 – Net amount distributed to BO

This field reflect the net amount that is paid to the beneficial owner after deducting the South African portion of tax. If a foreign rebate is applicable, tax will be calculated at the applicable rate on the taxable amount and the rebate (to a maximum that is equal to tax payable) will be deducted to determine the tax amount that should be withheld. The tax withheld will be deducted from the dividends value to determine the net amount distributed to BO.

Example 1 – Rebate less than tax payable:

Number of shares (field 67)		500
Dividend per share (field 68)	100 cents per share	100
Dividend value (field 69)	$500 * 100 / 100$	R500.00
Tax rate applicable (field 72)		15%
Tax payable (this is a subtotal field)	$R500 * 15 / 100$	R75
Rebate for foreign tax paid (field 73)	$R500 * 10 / 100$	R50
Tax withheld (field 74)	$R75 - R50$	R25
Net amount distributed to BO (field 75)	$R500 - R25$	R475

Example 2 – Rebate greater than tax payable

Number of shares (field 67)		500
Dividend per share (field 68)	100 cents per share	100
Dividend value (field 69)	$500 * 100 / 100$	R500.00

Tax rate applicable (field 72)		15%
Tax payable (this is a subtotal field)	$R500 * 15 / 100$	R75
Rebate for foreign tax paid (field 73)	$R500 * 20 / 100 = R100$ $R100 > R75$ Thus rebate = tax payable	<b>R75</b>
Tax withheld (field 74)	$R75 - R75$	R0
Net amount distributed to BO (field 75)	$R500 - R0$	R500

## 2.6. Appendix E – File Response Codes

With reference to response code 012 – Group submission incomplete: SARS will apply a SLA of one working week before rejecting a group submission as incomplete.

## 2.7. Field 62 – Country of Issue

This is a conditional field that should only be completed for foreign individuals – Identification type (field 60) = '003'. For South African citizens – Identification type = '001', the field should be left blank.

## 2.8. Field 50 – Dividend Unique number

The logical validation for this field is performed against the SARS database and not the file. In the instance where the Dividend Declared record was rejected and not uploaded to the SARS database, the RI records will all fail this validation.

## 2.9. Field 48 – Record status

The response reason "The record was added to the return for 2012xx" will be returned if new transaction records are submitted retrospectively for a previous period. It is also an indication that the transactions will be reflected on the DTR02 for the corresponding period.

## 2.10. Field 39 & 68 – Dividend per Share

This value should reflect the **gross** dividend per share as declared by the dividend declarant. It should include STC credit per share.

## 2.11. Resubmission of rejected records

If rejected records are corrected and resubmitted, the file should only contain the relevant header records, the correct records and the trailer record. The declarant information should not be included again.

## 2.12. Field 13 – Transaction period

The transaction period in the header is always the month in which the file is submitted. Even if data is submitted retrospectively, the date should be the current month. The date paid/payable and the transaction due date in the transactions determine the consolidation of the transaction for the pre-population of the DTR02.

### **2.13. Submitting Entity**

- The Submitting entity as per the BRS is the person who is required in terms of the legislation to report to SARS, i.e. the company or the regulated intermediary (RI).
- In a Collective Investment Scheme in Securities arena the management company is not a RI as defined, the portfolio itself is. This means that each portfolio is a RI and as a result also the Submitting entity as per the BRS. Reporting to SARS should therefore happen on a per portfolio basis.
- Where the RI is required to withhold/administer the Dividends tax (DT) but outsources the administration to an external service provider the RI remains the Submitting entity per the BRS (since it legally remains responsible in terms of the law) even though the other party actually does the administration and/or submits the file to SARS. When submitting a file to SARS the RI should always be reflected as the Submitting entity. If this is not adhered to it may result in payments being allocated to incorrect reference numbers, missing returns and the resultant penalties etc.

### **2.14. Dual Listed Shares**

Foreign dividends paid on shares listed in a foreign jurisdiction should not be included in the DT submissions. This issue might arise where a person owns shares of a foreign company listed both on the JSE and elsewhere (i.e. the person owns JSE listed Old Mutual shares as well as LSE listed Old Mutual shares). When the foreign dividend is paid to the beneficial owner only the part of the foreign dividend paid in respect of the shares listed on the JSE should be included in the DT submissions. [The part of the foreign dividend paid on the shares listed overseas falls to be taxed (or not) in terms of normal tax provisions (section 10B) and should not enter the DT system.]

### **2.15. What criteria would make SARS class a record as a duplicate?**

If ALL fields in a row are exactly the same as a previously submitted row that SARS has received and accepted, only then will it be classed as a duplicate.

### **2.16. Does SARS provide the Hash Total it was expecting if the one supplied is incorrect?**

Yes in the response file it will indicate both the value submitted and the value that SARS was expecting.

### **2.17. Why can a previously submitted and rejected record be rejected again by SARS after the error was corrected?**

SARS attempts to validate each field \ record in as much detail as it can, however the validation stops when it hits what is considered a critical validation point. For example, if a

mandatory field is blank, it cannot be further validated against the rest of the rules for that field that are detailed in the BRS. In this case, when the mandatory field is supplied in the next submission the same record may fail on another validation it was unable to perform previously, for example submitting alpha characters in a numeric field.

**2.18. Is there a limit on the number of lines that can be submitted in a file using connect direct?**

In theory there is no limit on the number of lines that can make up a file; the only constraint would be that the maximum number allowed in the “row number” field is limited to 9999999999.

**2.19. What is meant in the spec when the word “Blank” is used?**

This refers to a field where a value must exist and the field was not populated with any value at all. The pipe denoting the beginning of the field was directly followed by another pipe denoting the beginning of the next field.

**2.20. Will we always get an acknowledgement response followed by another response on the status of the file?**

No. If SARS does not have enough information in the file received to provide any useful feedback, then an instant rejection message is sent back using the details in the file name to compile the rejection response message.

**2.21. What will happen if we send a correction through before the actual record in a file?**

The SARS system will reject the correction because there is no record for the system to correct.

**2.22. Is Secure+ part of Connect Direct?**

If the Connect Direct product was purchased from IBM it would be bundled with the purchase. If the Connect Direct purchase was made through Trustlink, the Secure+ portion may or may not have been included depending on what agreement was made between the third party and Trustlink.

**2.23. Why do we need Secure+ with Connect Direct?**

Secure+ allows the use of certificate authentication between the submitter and the receiver.

**2.24. Can we obtain Secure+ if we don't have it with our current Connect Direct solution?**

Yes it can be obtained, for details please refer to the SARS website for who can be contacted for information with regard to the Connect Direct product.

**2.25. Should there be a pipe after a "blank" field in the file if the blank field is the last field in the row?**

No. If the last field in a row is a blank value then the last value in the row would be a pipe indicating the end of the previous field followed by an end of line character i.e. the value given by pressing the enter key.

## 2.26. File structure validations

File Structure Validations will be done in the sequence provided in the table below. If the file fails file structure validations (File Response Code = 004), then a File Response Reason will be provided in the response file header. In the instance where the file failed validations

No	Validation	File Response Reason
1	Does the file have a header, body and trailer identifier	Missing required section either header, body, or trailer
3	Does the generic header structure pass i.e. are there the correct amount of pipes	Generic header contains the incorrect number of fields
4	Does the trailer structure pass i.e. are the number of pipes correct	Trailer contains the incorrect number of fields
5	Does the submission file header structure pass i.e. are the number of pipes correct	Product header contains the incorrect number of fields
6	Does the body structure pass i.e. are the number of pipes correct and are the records submitted in the correct sequence	One or more body items contain the incorrect number of fields, or the records were submitted in the incorrect sequence
7	Validate the generic header data – actual content according to the spec	Invalid data in generic header
8	Validate the submission file header data – actual content according to the spec	Invalid data in submission file header
9	Validate the trailer: Is the correct data used in the correct fields – actual content according to spec	Invalid data in trailer
10	Validate the trailer: Do the calculated fields in the trailer add up	Trailer calculation failed

Note – if file did not pass validation numbers 1 to 6, then the acknowledgement of receipt cannot be issued and instead a rejection message will be sent.