Dear Jed Michaletos

RE: DIESEL REFUND LOGBOOK REQUIREMENTS

1. Introduction

We refer to our comments regarding logbooks under point 4 of the attached submission dated 23 February 2016. The purpose of this submission is to provide SARS with further information regarding the practical difficulties caused by certain logbook requirements. Mainly at issue are the requirements arising from the fact that diesel refunds can only be claimed once diesel is used. In preparing this submission, we obtained inputs from various stakeholders in the farming, fishing, and mining (including quarrying) sectors.

2. Logbook requirements

In terms of part 3 of schedule 6 to the Customs & Excise Act, a diesel refund is claimable on “eligible purchases”. These purchases are defined to mean “purchases of distillate fuel by a user for use and used as fuel as contemplated in paragraph (b)...” (our emphasis added).

Part 3 also defines “logbooks” and sets out the logbook requirements. SARS has additionally published draft logbooks for comment and conducted workshops for discussion. Taxpayers must keep two logbooks, namely:

- A Dispensing and storage logbook for the purchase of diesel, its storage and the dispensing of the diesel from a storage facility (unit/bowser); and

- A Usage logbook for the receiving of diesel from a storage facility into vehicles/equipment and use per activity.

3. Practical difficulties

Maintaining the “usage logbook” (in its proposed format) is proving administratively burdensome and impractical for most taxpayers. The most significant practical difficulty experienced in terms of compliance is the requirement to measure the diesel remaining in vehicles/equipment at the beginning and end of each month. Conformance with this requirement is often impossible, as set out below.
Farming:
- It is impractical to stop activities that take place on a day-and-night basis during the planting and harvesting season in order to measure the diesel remaining in the tanks of vehicles/equipment used exclusively for qualifying farming activities, such as tractors and combine harvesters. To stop for measurement is simply to halt production.

Fishing:
- Every vessel’s fuel tank is different in construction, material, size and location. Some vessels have multiple tanks with diesel pumped from tank-to-tank during the voyage in order to balance the vessel. Vessels often have multiple pieces of machinery on-board that run on diesel (for example, one or two main engines, two or more compressors and one or more generators). These items draw diesel from the same source and all tanks are interconnected.

- It is often impossible to reliably determine how much diesel is left in one or more tanks and the capacity of the tanks are often unknown. For most tanks, the taking of dip readings is not possible because: (i) tanks are often in obscure positions, (ii) the fillers are curved or have bends or are split to multiple tanks, or (iii) the tanks have split-level floors.

- In addition, vessels often go to sea for extended periods of time and are not necessarily in the harbour at or around month-beginning or month-end. It is impossible to accurately measure diesel on board a vessel in harbour under unfavourable weather conditions or while at sea, especially if the vessel is rocking and moving.

Mining (including Quarrying):
- It is wholly impractical for most mines operating on a 24-hour a day basis to stop operations in order to measure the diesel left in the equipment/vehicles at the beginning or end of the month. Again, to stop for compliance is to halt production.

- The location of mining activities, either in underground or open-cast mining areas, makes it impractical to measure the diesel left in the equipment/vehicles. These remote locations also mean that the risk of the diesel being used for purposes other than intended activities once dispensed into the mining equipment/vehicles is low (thereby rendering excessive measuring unnecessary).

- Also of note is the fact that most of the equipment/vehicles do not have accurate gauges to measure the diesel remaining in their tanks.
Other:
Some of the other comments received in relation to practical difficulties arising from the usage logbooks requirements are:

- The usage logbook requirements give rise to a significant administrative burden. While companies have financial personnel dedicated to financial books, companies do not use this personnel to perform physical measurements.
- Diesel is a significant cost to taxpayers. Companies accordingly have internal controls in place to mitigate their risks which SARS should be able to rely upon in terms of misused diesel. Some taxpayers use sophisticated fleet management systems, and SARS could rely on controls and the information provided by these systems without requiring monthly physical measurements.
- Equipment/vehicles are often operated by unskilled labour.
- There is a vast volume of logbooks required. Logbooks can be lost in the remote areas of operation or due to different shifts of workers.
- The tracking of hours and kilometres causes difficulty in certain circumstances. In many instances, equipment/vehicles do not have odometers. For example, in underground mining, some vehicles are disassembled into parts and taken down into shafts, only to be reassembled, modified and maintained underground.
- Some taxpayers have stopped claiming diesel refunds to which they are entitled because these taxpayers are unable to meet the requirements of the usage logbook and would rather not run the risk of SARS penalties. Similarly, some taxpayers find the administrative burden prohibitive.
- Often the nature of the equipment/vehicles, such as vessels, dump trucks and drill rigs mean that they can only be used in qualifying activities given their special purpose nature. This fact should be simple to verify.
- Generally, a very small percentage of diesel used in farming, fishing and mining has been used for non-qualifying activities and ideally a de minimus exclusion should apply.

4. Recommendations

In the industries where users qualify for the diesel refund, certain vehicles/equipment are only used for qualifying activities (as set out in part 3 of schedule 6) and certain multi-purpose vehicles/equipment are used for qualifying and non-qualifying activities.

The diesel refund legislation makes provision that in certain industries, such as offshore vessels and harbour vessels, the diesel refund is based on 100% of eligible purchases. On the other hand, in certain
other industries namely farming, forestry and mining on land the diesel refund is based on 80% of eligible purchases.

We recommend that, from a practical perspective, the diesel refund compliance should as far as possible be focused on financial data as opposed to physical measurement of diesel used. Although some taxpayers have systems in place to determine the amount of diesel used each month, the compliance burden is onerous and sometimes even prohibitive.

Ideally, the diesel refund should become claimable as soon as the diesel has been purchased (with the purpose) to be used for qualifying activities. Given that farming, forestry and mining on land are only entitled to a diesel refund based on 80% of eligible purchases and that, generally, a very small percentage of diesel used in these industries is for non-qualifying activities, a de minimus exclusion should apply. This should do away with the need to keep detailed logbooks.

An alternative approach to overcome these difficulties in keeping the prescribed logbooks, would be that a distinction be made between the logbook requirements for vehicles/equipment that are only used for qualifying activities and for multi-purpose vehicles/equipment that are used for qualifying and non-qualifying activities.

We recommend that once diesel has been dispensed into a vessel, vehicle, equipment or underground bowser that is used in a qualifying activity only, the associated diesel should be treated as having been properly “used” as required by the definition of “eligible purchases”. This approach would be in line with the approach followed by most diesel refund claimants to date, namely to claim the diesel refund based on dispensing records as proof of use. The logbooks can then be simplified to retain information, such as vessel, vehicle, equipment, and underground bowser description and identification, purpose (activity performed) and litres dispensed into the vessel, vehicle, equipment and underground bowser (while excluding opening and closing diesel balances and kilometres/hours used).

It is acknowledged that claiming diesel refunds as soon the diesel has been dispensed into a vessel, vehicle, equipment or underground bowser used in a qualifying activity may result in a timing benefit to the taxpayer to the extent that the diesel is still in the tank at month end. Nonetheless, the diesel in tanks is often only a small percentage of total diesel consumed in a month. More importantly, taxpayers typically paid for diesel (including the fuel levy and Road Accident Fund levy) before receiving the diesel refund, meaning that the timing benefit would not be unfair (with sums paid for the diesel before any refund can come due).

In the case of taxpayers who are entitled to claim diesel refunds on multi-purpose vehicles (such as bakkies, trucks and SUV’s), a different system may be required, unless a de minimus exclusion is applied. For this group, logbooks similar to the usage logbook proposed by SARS would be required to prove the split between eligible an ineligible purchases of diesel. In cases where these taxpayers are not able to measure the diesel in the tank at month-end, the diesel refund claim would have to be deferred until the next month.
We thank you for the opportunity to voice our concerns in relation to this critical compliance matter and trust that we can engage at the earliest possible time of convenience.

Sincerely

Keith E Engel
Chief Executive Officer