Acknowledgements

This report is based on a survey conducted in collaboration between Agri SA and the South African Institute of Tax Professionals (SAIT). We would like to thank all participants for completing the survey. In addition, we would like to thank Corné Louw (Grain SA) for his valuable inputs on the survey questions and the draft version of this document.
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1. Introduction

Diesel is an important input cost for many farmers. In terms of agriculture's total expenditure on intermediate goods and services, fuel represented approximately 9% (R12 billion) in the 2016/17 financial year.

The diesel refund system supports primary producers in the agriculture, forestry, fishing and mining sectors by giving full or partial relief for the fuel levy (FL) and the road accident fund (RAF) levy. These levies form part of the per litre price of diesel. Businesses involved in qualifying activities can apply to register for the system with SARS and then claim a refund, based on the use (not purchases) of diesel.

The aim of the system is to support the international competitiveness of the agriculture, forestry, fishing and mining sectors. Furthermore, it aims to provide relief from the road related tax burden, for certain non-road users involved in qualifying activities.

According to the OECD's Producer Support Estimate (PSE)\(^1\), the level of subsidies for South African Agriculture are amongst the lowest in the world. In this context, the diesel refund is the main support mechanism available to South African farmers.

The system was first introduced in 2000, using a phased approach. The administration of the refund system is linked to the VAT system and accordingly, businesses need to be registered for VAT to register for the diesel refund. For this reason, the payment of the diesel refund is linked to other departments within SARS, such as VAT and debtors. Taxpayers need to be cognisant of their net position in terms of VAT and diesel refunds as this has an impact on the processing and payment of diesel refunds. Maintaining detailed records and supporting documents is crucial when claiming a diesel refund.

However, complying with the logbook requirements can be problematic. There is uncertainty as to the specific logbook requirements that are used by auditors when auditing diesel refund claims and this can lead to delays in the audit process and payment of the refunds. The diesel refund is conditional in the sense that until a claim has been audited, SARS may cancel a claim that was previously approved.

The diesel refund system is a valued support structure for the qualifying industries, such as agriculture. However, delays in the payment of refunds has an impact on cash flow, leaving a gap in cash flow that needs to be managed.

\(^1\) Agricultural Policy Monitoring and Evaluation, 2017. OECD.
Emerging farmers, not registered for VAT, cannot currently use the refund system (except for those in the sugar industry). However, the National Treasury and SARS are in the process of reviewing the system and will host further stakeholder consultations during August 2018. One of the proposals is to separate the administration of the diesel refund and VAT systems.

Within this context, Agri SA and the South African Institute of Tax Professionals (SAIT) collaborated to conduct a survey among users of the diesel refund system. The aim of the survey was to identify any problems experienced with using the current system. The results will be used to engage with SARS on how these issues can be resolved, but also to consider how the proposed new system could help to mitigate and resolve these issues.

The survey results are summarised in the following infographics. There were 826 respondents of whom 47 did not complete the survey. These respondents were excluded by the control question: On whose behalf do you claim the diesel refund? The 47 respondents do not claim the diesel refund. Accordingly, 779 of the 826 respondents claim the diesel refund. However, note that the results of this survey are indicative of the issues experienced by those who completed the survey. It is not to be generalised as representative of all users that make use of the diesel refund system.
2. Survey Results

1. On whose behalf do you claim the diesel refund?

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>My business/operation (that I work for or own)</td>
<td>83.17 %</td>
</tr>
<tr>
<td>My client/s business/operation/s (for which I am the tax practitioner)</td>
<td>11.14 %</td>
</tr>
<tr>
<td>None of the above</td>
<td>5.69 %</td>
</tr>
</tbody>
</table>

2. In respect of which industry do you claim diesel refund?

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture/Farming</td>
<td>94.44 %</td>
</tr>
<tr>
<td>Mining on land</td>
<td>2.07 %</td>
</tr>
<tr>
<td>Forestry</td>
<td>1.16 %</td>
</tr>
<tr>
<td>Fishing</td>
<td>0.39 %</td>
</tr>
<tr>
<td>Offshore vessels (other than fishing)</td>
<td>0.13 %</td>
</tr>
<tr>
<td>More than one of the above</td>
<td>1.81 %</td>
</tr>
</tbody>
</table>

3. In which provinces do you submit VAT returns for diesel refund claimants?

<table>
<thead>
<tr>
<th>Province</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gauteng</td>
<td>18.77 %</td>
</tr>
<tr>
<td>Free State</td>
<td>8.01 %</td>
</tr>
<tr>
<td>Western Cape</td>
<td>54.20 %</td>
</tr>
<tr>
<td>North West</td>
<td>1.31 %</td>
</tr>
<tr>
<td>Orange Free State</td>
<td>1.05 %</td>
</tr>
<tr>
<td>Limpopo</td>
<td>3.41 %</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>3.28 %</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>1.84 %</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>8.14 %</td>
</tr>
<tr>
<td>Eastern Free State</td>
<td>1.05 %</td>
</tr>
</tbody>
</table>

There were 826 respondents of whom 47 did not complete the survey. These respondents were excluded by the control question: On whose behalf do you claim the diesel refund? The 47 respondents do not claim the diesel refund. Accordingly, 779 of the 826 respondents claim the diesel refund. The results of this survey are indicative of the issues experienced by those who completed the survey. It is not to be generalised as representative of all users that make use of the diesel refund system.
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7. If you have experienced delays, who have you approached to resolve the issue?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The SARS National Contact Centre</td>
<td>35.63 %</td>
</tr>
<tr>
<td>The SARS Complaints Management Office (CMO)</td>
<td>7.28 %</td>
</tr>
<tr>
<td>The Tax Ombud</td>
<td>3.45 %</td>
</tr>
<tr>
<td>I have not taken any action to resolve the issue</td>
<td>30.65 %</td>
</tr>
<tr>
<td>Other</td>
<td>22.99 %</td>
</tr>
</tbody>
</table>

8. Which channels assisted you to resolve your issue?

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The SARS National Contact Centre</td>
<td>27.94 %</td>
</tr>
<tr>
<td>The SARS Complaints Management Office (CMO)</td>
<td>5.67 %</td>
</tr>
<tr>
<td>The Tax Ombud</td>
<td>3.24 %</td>
</tr>
<tr>
<td>The issue has not been resolved</td>
<td>37.65 %</td>
</tr>
<tr>
<td>Other</td>
<td>25.51 %</td>
</tr>
</tbody>
</table>

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3. Conclusion

The survey results have highlighted key areas that can be improved. For cases where refunds have been delayed, it seems communication and feedback from SARS is an area of concern. Greater clarity on the requirements and guidelines from SARS are needed, especially in terms of the logbook requirements. Most of the users sampled find the requirements of the draft logbook to be impractical to apply in their business operations.

These results will be shared with SARS and National Treasury, in a spirit of collaboration to resolve current issues and to incorporate solutions in the proposed new system.

Disclaimer

Best endeavours have been used to ensure the accuracy of this information, however, Agri SA & SAIT takes no responsibility for any loss or damage incurred due to the usage of this information. The results of this survey are indicative of the issues experienced by those who completed the survey. It is not to be generalised as representative of all users that make use of the diesel refund system.

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Appendix

Q2. In respect of which industry do you claim diesel refund? More than one of the above:

- Farming & Forestry
- Agriculture/Farming and Forestry
- Agricultural and alluvial diamond mining
- Offshore drilling of gas oils

Q5. For diesel refunds claimed in the last year (from January 2017), how long did it typically take from the time that you submitted your VAT return until you received your diesel refund? Longer than a year:

- 13 months
  - Refunds for 2017/03; 04; 05; 06; 07; 10 still outstanding
  - In some instances we wait more than 2 years
  - Even Tax Ombud struggles to force SARS to pay
  - SARS Audit
  - Mining license and mine operations in different company. SARS not allowing it
  - Audit assessment reversed claims due to not delivering to site, however, political unrest disallows this and long distance delivery doesn’t allow this

- 2-3 years
  - It’s cheaper not to claim the refund than to employ someone to do it on my behalf
Q6. Which reasons did SARS give for the delay? Other:

- SARS say that we need to request the offset and they don't do it automatically
- No turn-around-time for diesel refunds
  - No diesel logbooks - tractors don't have meters
  - Personnel illiterate
- SARS takes ages to do the offset journal
  - Outcome of appeal now more than a year ago
  - Our documents submitted one month late
- Mining license and operations are not in the same company
- SARS taking their time to process payments
  - Refund not finalised by the relevant department. And because the rebate was off-set against the other VAT, it shows as if we short paid on SARS’s side
- They withheld current rebates pending audit of 2 years’ back rebates
  - The method adopted by SARS to determine how to claim is actually ridiculous

Q7. If you have experienced delays, who have you approached to resolve the issue? Other:

- **Private auditors**
  - SARS contact centre to request reasons why payments take so long
  - Awaiting audit outcome
- **Bookkeeper**
  - Gave up trying to find out why
- **Tax practitioner**
  - SARS local office stated that it is with their legal office
  - Mostly national contact centre but once had to use Tax Ombud
Q8. Which channels assisted you to resolve your issue? Other:

Resolved spontaneously
PCC most of the time
Eventually paid
Tax Practitioner E-filing Auditors

Since about November 2017 rebates have been paid much earlier (spontaneously)
Notice of Objection (ADR 1)

Q9. Have VAT penalties been levied due to diesel refunds being audited/delayed? Comments:

Matter remains unresolved
It looks like they're holding back the refunds.

Cannot say as yet, as process is ongoing
I do not subtract the diesel refund from VAT payable

Not sure
They are levied, but then reversed when the offset journal is done
VAT penalty was levied due to diesel refunds once
On the Statement of Account it shows as a penalty, but as soon as it was finalised it was reversed
Q10. Do you think that the SARS guidance on the diesel refund requirements is adequate? Comments:

They demand unreasonable data
What guidance, I am not aware of anything?
I think they were holding back refunds to manage their cashflow
Logbooks for agricultural use is not practically doable
Person doing the checking has no idea how a farm works
Needs to be more detailed and available
Their criteria for refunds is almost impossible

Q11. Do you use the draft SARS logbook template to support diesel refund claims? Comments:

Never knew there was one
Where can one get it?
Not user friendly
Electronic "Afri-clock" system
Using third party electronic logbooks
Too complex
Own logbook format
Using hour gauges
Not practical
Q12. Do you find that it is practical in your business/operation to provide the information required in the draft SARS logbook? Comments:

Not always practical
Due to illiteracy
Not aware of the draft SARS logbook
Difficult but we are trying our best, using a tablet at the diesel pump to record
Different auditors want different information
Give total of diesel litres used over 2 months to bookkeeper

Q13. Have you experienced delays in SARS offsetting the diesel refund against the VAT on their system in line with your VAT returns? Comments:

We pay the full amount on the VAT return
Did not deduct diesel refund from net VAT payable
Yes, SARS is very slow in this regard with the effect that clients have to pay interest and penalties

Only during the diesel audit
Yes! They charge penalties + interest and they do not remove them
A lot of confusion and penalties is constantly reversed
Q14. Has your experience with claiming and getting the diesel refunds been improving over the last 5 years? Comments:

- Stopped claiming - rules impossible
- No significant difference
- Never had a problem
  - Don't have 5 years experience
  - I never had any problem since we started claiming
- Marginally
- Getting worse
- Not sure
- Has not changed
- At times
- AUDIT UPON AUDIT