

Section 11(j)(ii)

In order for SARS to review your request, you are required to consider, complete and provide documentation where required.

The application is made up of 2 documents, it being a request for information (RFI) and a loss allowance model template.

The RFI consists of:

Business overview; internal process, procedure and governance:	Points 1 to 9
Guidance with reference to level of detail expected	Point 10
Questions	Point 11 to 16

The Loss Allowance Model consists of:

Model overview		Points 17	
Tab 1	-	Application Summary	Points 18 to 21
Tab 2	-	Up to 40%	Points 22 to 34
Tab 3	-	Up to 85%	Points 35 to 38
Tab 4	-	Recoveries	Points 39
Summary	-	Overview	Points 40 to 47

Business overview; internal process, procedure and governance

1. Please provide:
 - An overview of your business activities, including the types of finance (instalment sale, lease etc.) that you provide as well as the underlying commodities that are being financed.
2. Please provide:
 - An overview of your entity's governance structure.
3. Please provide:
 - Financial statements for the last year financial year, prior to the introduction of section 11(j)ii.
4. Please provide:
 - The name of your current external auditors, including date of appointment.
5. Should your latest financial results (prior financial year-end or current financial year-end interim results) contain a modified audit report, please indicate the level of audit qualification.

A modified audit report could be expressed as one of –

- an *'except for'* audit report;
- an *'adverse'* audit report;
- an *'inability to form an opinion'* audit report.

In all cases where there is a modified audit report, please provide full details of the possible effect of the modification on the values and categorisation of your impairment provisions.

6. Please provide:
 - Further details on any reference to 'emphasis of matter' in the audit report.
 - Although a reference to 'emphasis of matter' does not constitute a qualification, any mention of 'emphasis of matter' requires explanatory details.
7. Please provide:
 - A copy of your accounting policies – if not already contained in your financial statements.
8. Please provide:
 - A copy of your risk management policies.
9. Please provide:
 - A copy of your credit provisioning methodology.

Guidance with reference to level of detail expected

10. Although the documents above may include information that relates to this questionnaire section, you are required to capture your response to all questions afresh in the space provided. Should you attach supporting documentation, please clearly indicate the relevant pages and paragraphs applicable to each question.

Response to Question #	
<p><u>Taxpayer response:</u> Capture answer here or make reference to a separate document, which is clearly marked as “<i>Response to Q #</i>”.</p>	
<p>Taxpayer response: <u>Documentation</u></p>	<p>Where appropriate, the taxpayer can attach existing documentation which would validate the response and / or assist in answering the question. Should the supporting documentation cover a broad spectrum of principles, the taxpayer should refer to the specific pages contained in the documentation that relates to the answer of the question being addressed.</p>

Questions

11. Section 11(j)(ii) requires consideration, by the Commissioner, of the following factors in determining the percentage allowance which can be increased, to a percentage not exceeding 85%:
- A. the history of a debt owed to that taxpayer, including the number of repayments not met, and the duration of the debt; (**addressed in the loss allowance model**)
 - B. steps taken to enforce repayment of the debt; (**question 12**)
 - C. the likelihood of the debt being recovered; (**question 13**)
 - D. any security available in respect of that debt; (**question 14**)
 - E. the criteria applied by the taxpayer in classifying debt as bad; and (**question 15**)

F. such other considerations as the Commissioner may deem relevant.

The factors listed above are addressed through the provision of the detailed information requested hereunder.

12. Please provide an overview of your debt collection process, including internal and external legal processes followed, with specific reference to subsequent write-off and possible recoveries.
13. An entity should write off non-performing debt at the point where there is no reasonable expectation of further material recoveries. Please provide the necessary detail required including a methodology description of establishing the probability point of further recovery being improbable. Your description must at least include the following:
 - Please provide your definition of and measurement criteria for the phrase 'reasonable expectation'. This could be expressed as the period that debt and its associated provision must be held on balance sheet before the entity believes that no further material recoveries would be collected.
 - Please provide your definition of and measurement criteria for the phrase 'material recoveries'. Material recoveries refer to any amounts received post write-off and should be limited to such recoveries not exceeding a specified percentage of prior write-offs. What is the stated threshold in your organisation?
14. To the extent that the debt facility provided by your organisation was in respect of secured lending, please elaborate on how the recoverable value of securities was established.
15. Please provide a detail of criteria applied in classifying debt as bad (default), including (at least) the following:
 - The necessary detail to describe the definition and principles of default in your environment;
 - An illustration of this application in your environment;
 - Do you allow the restructure of existing debt, distressed or otherwise? If so, provide the necessary detail on how the different categories of restructured debt are treated for provisioning purposes.
16. Please provide any other information that may be important and relevant.

Model overview

17. The objective of the model is to obtain the maximum amount of granular data regarding the loan book.

Tab 1 – Application Summary

18. Tab 1 requires the following inputs:

TAXPAYER NAME:	ER
TAX REFERENCE NUMBER:	9999/888/77/6
FIRST DAY IFRS9 TRANSITIONED:	01 January 2018
FIRST YEAR END IFRS9:	31 December 2018
DATE OF DATA SUPPLIED:	1-Jan-18

19. All data captured onto tabs 2 (Detail for up to 40%) and 3 (Detail for up to 85%) will automatically update the summary tab.

20. The loss allowance model must be completed for the year of assessment prior to the introduction of section 11(j)(ii).

21. Please check that tab 1 correctly reflects the output of your application.

Tab 2 – Detail for up to 40%

22. The body of the model consists of 5 main areas:

- Drop-down selections;
- Name of individual or group;
- Value capture;
- Number of instalments;
- Overdue status.

23. The drop-down selections can be found in lines/columns B120:F147.

DROP DOWN SELECTIONS				
Borrower's Sector	Homogeneous Group Identifier	Type of finance	Collateralised	Underlying Asset being funded
Select	Select	Select	Select	Select
Individual	Spare	Term: to 6 m's	Unsecured	Clothing
SME	Spare	Term: to 12 m's	Secured: Asset	Communication
Corporate	Spare	Term: to 18 m's	Secured: Guarant	Electricity
Municipality	Spare	Term: to 24 m's	Spare	Furniture
Parastatal	Spare	Term: to 36 m's	Spare	General
SOE	Spare	Term: to 48 m's	Spare	House
Spare	Spare	Term: > 48 m's	Spare	Rates & Taxes
Spare	Spare	Call loan	Spare	Services
Spare	Spare	Credit Card	Spare	Vehicle
Spare	Spare	Guarantee	Spare	Spare
Spare	Spare	Lease	Spare	Spare
Spare	Spare	Revolving credit	Spare	Spare
Spare	Spare	Spot Invoice	Spare	Spare
Spare	Spare	Term: Annual	Spare	Spare
Spare	Spare	Term: Bullet	Spare	Spare
Spare	Spare	Term: Structured	Spare	Spare
Spare	Spare	Spare	Spare	Spare
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Spare	Spare	Spare	Spare	Spare

- 24. Each drop-down box is pre-populated with a number of descriptions. Should the current descriptions not be adequate for your business, "spare" lines can be used.
- 25. A spare column "Homogeneous Group Identifier" was inserted. The "spare" can be populated and used accordingly.
- 26. The data may be captured at an individual debtor level or at a homogenous group level. The individual name or the group name must be captured in column G.
- 27. For each line item, the value of the gross advance as shown on the balance sheet must be captured in column H.
- 28. The overdue portion of the gross advance referred to in point 27 must be captured in column J.
- 29. The current portion of the debt will be calculated automatically.
- 30. Each line item requires the total number of instalments that represents the value of the gross advance. Please note that the value of the instalment is not required. This must be captured in column K.

31. The number of instalments that is overdue must be captured in column L.

32. An example would be:

- Gross advance of R1 000 000 - represents 20 instalments;
- Overdue portion of R200 000 - represents 4 instalments.

33. Column M contains a selection that represents how long the debt is overdue. You are required to make a selection from the dropdown box.

34. At this point you can check the output of the captured data on the Summary tab.

Tab 3 – Detail for up to 85%

35. Any additions to the dropdown boxes must be made on tab 2.

36. Lines 22 to 33 are repeated for tab 3.

37. Two additional fields must be populated on tab 3.

- The realisable value of any security held (column O); and
- The probability rate of default (column P).

38. Please check the output of the captured data on the Summary tab.

Tab 4 – Recoveries

39. You are required to provide the values of write-offs and recoveries for the past ten years.

Summary

40. Capture taxpayer data in Summary.

41. Prepare drop-down selections on tab 2.

42. The body of the model consists of 5 main areas:

- Drop-down selections;
- Name of individual or group;
- Value capture;
- Number of instalments;
- Overdue status.

43. Two additional fields must be populated on tab 3.

- The realisable value of any security held; and
- The probability rate of default.

44. For each line entry, select the relevant identifier from each drop-down box.

45. Capture all the fields as described in points 22 to 33 and 37.

46. Complete the Recoveries tab.

47. Check the output as calculated in the Summary tab.