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CRY WOLF!



The incisive newsletter for tax analysts with too much time on their hands.

Editorial Revolution

In keeping with the spirit of the day of issue, the previous editors have given up their powers to an editorial collective. This newsletter will therefore expand its scope to cover issues with both a tax and a broader economic and social impact.

- Editorial Collective

Media Musings

We are often led to wonder if the media and the rest of us are working in the same continuum. That or we are missing some truly obvious points.



A list of the apparent differences in the last few months alone would make for a bulky document which would soon lose its savour for the reader. We have, therefore, picked on two that struck some of our readers and ourselves as the most intriguing.

If we are missing the point, please let us know. Our discussion board and e-mail address are available on our website.

- Editorial Collective

Corporate Raiders?

An astute reader has drawn our attention to an important development. The fact that it was missed by the previous editors is a clear illustration of their foolishness, since we know they had access to the source material. We have seen the bills!

The article *Tax break on exported royalties queried* in the Business Day of March 11, 2004 notes that;

> "CONTROLLED foreign companies that receive royalties from South Africans for the use of trade names and other intangible assets need not pay tax on this income to the South African Revenue Service (SARS) and some analysts believe this exemption should be reconsidered.
>
> Millions of rands flow out of SA every year in the form of royalty and other agency payments to multinationals such as clothing retailer Levi's and fast-food outlets Wimpy and McDonald' s.
>
> A controlled foreign corporation is an overseas company in which a South African resident holds more than 50% rights."[1]

The implication that South African residents hold more than 50% of the three multinationals listed is not something that has enjoyed the attention that it deserves. Did South African corporate raiders bring them onshore or was this a voluntary move?

From a tax point of view we would point out that royalties received by a CFC do not qualify for the exemptions contained in section 9D of the Act. While we agree that the royalty

1 Full text available at http://www.bd.co.za/bday/content/direct/1,3523,1566187-6078-0,00.html

payments to a CFC are exempted from withholding tax, we would suggest that the royalty income of the CFC will be imputed back to the South African residents and taxed in South Africa.

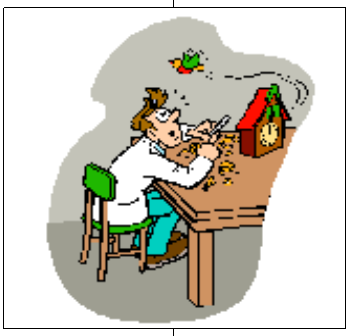
What then is the mechanism for the feared erosion of the tax base? Will a reader take pity and enlighten us?

- *Editorial Collective*

Doing the Time Warp Again

A reader at SARS has provided us with a copy of another tax publication in the market. There are a number of features that simply cry out for comment but I will restrict myself to three in line with our editorial policy of restraint.

- According to e-mail time stamp and the meta data in the PDF version of the publication, the publication was e-mailed several hours before it was created as a PDF.



- Although the PDF was created on the morning of April 28, 2004, it contains what appears to be an April Fool' sjoke relating to a press release by the Minister of Finance.

  Someone should draw the editor's attention to the following convention;

  > "April Fool's Day or All Fools' Day is a notable day, though not of its own right a holiday, celebrated in many countries on April 1. The day is celebrated by the execution of hoaxes and practical jokes of varying sophistication with the goal of publicly embarrassing the gullible. Traditionally, pranks are supposed to end by noon."[2]

  From the context we suspect that what is meant is noon of April 1.

Perhaps it is appropriate that the subject of the e-mail distributing the publication begins "Tax schock" since that leaves us wondering whether there is an extra "c" or a missing "l".

- *Yam Yad*

2 Full text available at http://www.worldhistory.com/wiki/A/April-Fool's-Day.htm

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