



**UNIVERSITY OF KWAZULU-NATAL**

# **The evaluation of VAT implications on imported and electronic services at UKZN**

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## **Abstract**

The South African Government is trying to reduce the Value Added Tax (VAT) gap by ensuring VAT is declared on imported and electronic services which is line with international practice. Legislation has also been changed to effectively increase compliance between residents and non- residents with the South African Revenue Services and to level the playing fields for domestic suppliers. The aim of the study was to determine the main reason for using offshore suppliers' services and to determine if there are internal and external controls to deal with the imported and electronic services in the University of KwaZulu-Natal. The area researched is specialized and the total population is small. The non- probability sampling technique was the only effective way to ensure the sample was high with respect to the population. A sample of 49 respondents was drawn from all five campuses in UKZN with a population size of 52 potential respondents, within the Durban, Pinetown and Pietermaritzburg areas. The sample is composed of 58% females and 42% males. Of the sample, 100% were non- academic staff. The majority of the sample (98%) worked with VAT on imported services. The tertiary institution of UKZN was chosen because the specialization and sensitivity of the area studied. Not many institutions would prefer to discuss their tax affairs with outsiders. Data was collected using self-administered questionnaires developed by the researcher. A salient finding of this study was that 64% of the respondents indicated that the specialization of the services was the main reason for using foreign suppliers. There was no information gathered from the research to suggest that legislation has curbed foreign purchases or increased domestic purchases. The majority of the respondents were indecisive in determining whether they understand when foreign payments that were regarded as imported services. The study also revealed that there were internal and external controls in place at UKZN. This study showed that government benefits from the increase VAT revenue received when specialization is the main reason for using offshore suppliers because residents cannot find these services in the domestic market. Due to the high employee turnover and delegation of duties, staff must be informed of the best practice. Presentations and seminars will also assist in educating staff.

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# **CHAPTER ONE**

## **Introduction**

### **1.1 Introduction**

Prior to 1 June 2014 imported services were broadly defined in the Value Added Tax Act No.89 of 1991 (VAT Act), the South African Revenue Services (SARS) relied on the taxpayer to pay their taxes but this system lacked enforceability and tax compliance was low. To curb the loss of revenue to SARS, National Treasury prescribed on the 31 January 2014 what electronic services are and the rules by means of a draft regulation thus ensuring that foreign businesses register for VAT with SARS in terms of the proposed legislation.

Universities in South Africa (SA) were compelled to comply with the proposed regulation. Imported Services and electronic services is defined in section one of the VAT Act. The Higher Education South Africa (HESA) stated that in 2015, guidance will be provided to public universities for compliance with the provisions of the Value Added Tax on imported services (HESA, 2015).

There is enthusiasm for the distinctive contribution this study will make towards universities in their utilization of imported services and its application in terms of the VAT Act. The research question will be based on the problem statement and the research undertaken will identify the outcomes of the study. A proposed methodology will be used to gather primary data on the research. The data will be analysed to support or refute the research questions and hence answer the problem statement.

### **1.2 Problem Statement**

VAT on imported services has always been in the provisions of the Vat Act but due to its misunderstanding and complexity, compliance was not met. From 1 June 2014 government compelled non- resident suppliers to charge VAT on e-commerce sales in the Republic (National Treasury, 2014). This new legislation has changed the way

in which organizations were previously treating VAT on imported and electronic services.

There are three research questions that need to be answered in this study.

The aim of this study is to establish if universities can successfully implement imported and electronic services in terms of legislation.

### **1.3 Motivation for the Study**

Currently UKZN is using offshore suppliers and this practice does not support the domestic market. Thus this study aims to establish the reason for using offshore suppliers and the possibility of UKZN changing to use domestic suppliers because it may not be feasible for them to use foreign suppliers with the change in legislation.

The research will also determine that in terms of a university's (UKZN) perspective, has government levelled the playing fields and how it has effected domestic sales (imported and electronic services only) to UKZN. UKZN need to establish if their staff understand the concept of imported and electronic services and does SARS need to provide more guidance on the subject. UKZN need to determine if there are internal controls in place to identify and deal with this area of taxation. UKZN, SARS, foreign suppliers and domestic suppliers need to determine if foreign suppliers are compliant. This study will contribute to the effective implementation of the new legislation at higher education institutions.

### **1.4 Focus of the Study**

Due to the fact that this area of specialization relating to imported and electronic services has only been recently implemented by South African higher education institutions, the study will be limited to the place of work (UKZN). UKZN has five campuses and the potential population is scattered in all the five campuses. The study will only apply to staff working with the subject matter, other staff and students will not be considered.

## **1.5 Objectives**

- To establish the underlying reason for using offshore service suppliers.
- To determine if government will be successful in eliminating the competitive disadvantage faced by domestic suppliers.
- To establish UKZN's working knowledge in the subject matter.
- To determine if additional theoretical guidance is necessary.
- To establish the adequacy of internal and external controls.

## **1.6 Research Questions**

By imposing VAT on imported/ electronic services:

- What is the main reason for using foreign suppliers and has government levelled the playing fields with the new legislation?
- To determine if imported services can be identified by staff and are more guidelines needed on imported services at University of KwaZulu- Natal (UKZN)?
- Is there compliance by the internal stakeholders?

## **1.7 Proposed Methodology**

There are three research approaches that could be used to conduct the research, the quantitative, qualitative and mixed method approach. The quantitative approach will be used due to its objective outcome on the study.

Due to the infancy stage of the implementation of the specialized area being studied at UKZN, it is anticipated that the potential population will be small. To achieve a high sample and good response rate, non - probability sampling will be used. Snowballing is another non- probability technique that can be used to ensure that the number of potential respondents in the sample is as close as possible to the population. This technique was used to identify potential respondents that were difficult to identify.

The research tool to be used will be surveys and the data collection methods will be - delivered, postal and internet –mediated surveys, to complete.

The research methodology will be discussed in greater lengths in Chapter Three of the study.

## **1.8 Chapter outline**

Chapter One: This chapter will focus on the problem statement which emanates from the workplace. To determine the research questions and objectives and how they will be answered in the study. The rest of the chapter will be devoted to the research methodology part of the study.

Chapter Two: This chapter defines and explains what is imported and electronic services in South Africa and why was it introduced and legislated in the tax laws. Is South African legislation adequate to deal with cross border transactions? The Organization of Economic Co-operation and Development (OECD) has developed international VAT guidelines to deal with cross border transactions. This chapter will delve into whether these guidelines are applicable in South Africa. A closer evaluation of the introduction of the electronic services into the VAT Act.

Chapter Three: Discusses the objective and aim of the study. The research approach will be explained and the reasons for using it. The sampling technique used will be stated and explained. What instrument of choice will be used and how it will be used to collect the data needed to carry out the study. What pretesting and validation techniques will be used on the chosen instrument of research?

Chapter Four: Discloses the results and discussion of the theoretical framework developed by the literature review. The data will be presented as figures, tables and narrative text in the form of descriptive statistics.

Chapter Five: The primary and literature study findings are presented and discussed. This chapter will discuss briefly if the research questions have been answered. It will also explain how the results of the study can be applied in practice. Recommendations

will be made to solve the business problem. Limitations experienced in this study will be noted and ways to deal with and rectify them for future purposes will be recommended to overcome these limitations.

## **1.9 Summary**

This chapter focused on the problem statement which exists in the workplace. It is envisaged that this study will make a useful contribution of this specialized area of taxation to universities. The problem statement gave rise to three research questions which establishes the research objectives and outcomes of the study. The proposed methodology was discussed concisely and detailed in Chapter Three. This chapter also outlined the research that will be conducted into the use of foreign suppliers as compared to local suppliers with respect to services rendered at higher education institutions. It is envisaged that the study will establish if higher education institutions will be able to utilize local suppliers. Each of the five Chapters outlined the structure of this dissertation and the way the study will be conducted. The literature review in chapter two will establish a framework for this study.

## **CHAPTER TWO**

### **Review of Literature**

#### **2.1 Introduction**

From the inception of VAT in South Africa up until the 1 June 2014, all foreign payments were subject to VAT if they met the provisions of the VAT Act. However, during this period there was non-compliance to legislation due to various reasons. To curb the unaccounted VAT loss to the fiscus, on 1 June 2014 the VAT Act compelled non-resident suppliers to charge VAT on all supplies that met the definition of electronic services. Depending on the VAT implications all foreign payments are therefore subject to VAT provisions of the Act and if it meets the definition of imported or electronic services, VAT will be charged. This change in legislation has triggered VAT implications especially for higher education institutions.

#### **2.2 The Economics of an increase in VAT**

All economies in the world have tax gaps and this includes South Africa. The difference between what should be collected in terms of the VAT law and what is actually collected is referred to the VAT gap (Davis and Woolard, 2014).

The South African Government will try by all means to reduce this gap as much as possible. From an economic efficiency outlook, a tax revenue approach is a more effective way of redistributing extra income to the poor. Other approaches like increasing the zero rating of certain food items, on its own, does little to boost the economy and the progressivity of VAT. In the short term, the VAT increase will impact negatively on employment and real gross domestic product (GDP) but an increase in Personal Income Tax (PIT) and Corporate Income Tax (CIT) would be more severe on employment and GDP over the longer term. Thus an increase in direct taxes is more distortionary than VAT from a macroeconomic point of view. There are fewer disruptions to the economy by raising VAT revenue (Davis and Woolard, 2014). These disruptions are restrained by the exempt and zero rated items which makes VAT generally neutral. All citizens of South Africa pay VAT in proportion to their disposable income (Inchauste, Lustig, Maboshe, Purfield and Woolard, 2015)

2014 BUDGET REVIEW	2010/11	%	2011/12	%	2012/13	%	2013/14	%	2014/15	%
ESTIMATES OF NATIONAL REVENUE (main sources of revenue)	Actual Collections						Revised estimates		Budget estimates	
R MILLION										
Individuals	226 925	33.7	250 400	33.6	275 822	34.5	308 930	34.9	335 944	34.9
Companies	132 902	19.8	151 627	20	159 259	19.9	176 965	20.0	198 935	20.7
Value-added tax	183 571	27.3	191 020	25.6	215 023	26.9	237 667	27.0	267 160	27.7
TOTAL MAIN BUDGET REVENUE	672 752		745 292		799 762		886 167		962 782	

Table 2.1: VAT as source of revenue 2010/11 – 2014/15

Source: Adapted from Davis,D.& Woolard,l.(2014).p15.

The above table shows that VAT is the second largest source of revenue to the fiscus in South Africa. The VAT collections are reduced by refunds when input tax exceeds output tax. PIT and VAT collections in 2014/2015 have increased despite the high unemployment rate and poor economic growth (TMG Digital Reporters, 2015). VAT is an effective source of revenue and reduces the tax gap. The inclusion of VAT on imported and electronic services will increase the VAT revenue for South Africa.

### 2.3 The Ability to pay taxes

VAT is a consumption tax and is fourteen per cent on the value of the supply in South Africa. VAT would appear to be a proportional tax because of its flat rate, but it is a regressive tax (Van Rensburg, McConnell & Brue, 2011).

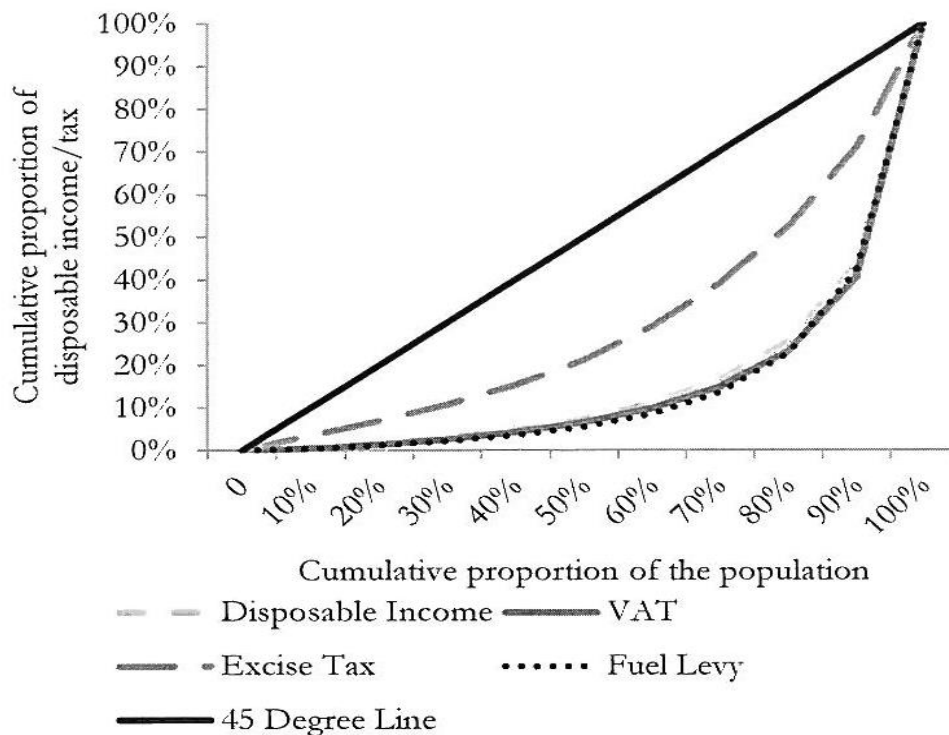


Figure 2.1. Concentration Curves of Indirect Taxes

Adapted from Inchauste, G., Lustig, N., Maboshe, M., Purfield, C., & Woolard, I. (2015). p16.

Figure 2.1 shows that VAT affects everyone's disposal income (Inchauste et al., 2015). Inchauste et al., (2015) state that as indirect taxes increase, VAT is the biggest component of taxes that effects the final consumers especially the lower income consumers. It is the responsibility of the final consumer of the imported or electronic services to declare the VAT, the VAT Act does not distinguish between natural or juristic person with respect to this supply. VAT is a self- assessment and the onus is on the consumer to pay over the VAT to SARS (SARS, 2015).

The output and input mechanism is used to account for Value Added Tax (VAT). When a person is registered for VAT, output VAT is declared on revenue and input tax is claimed on expenses that relate to the taxable supplies. The difference of output and input tax is either paid to or refunded from South African Revenue Services (SARS) (Ger and McCready, 2012).

## **2.4 Provisions of the VAT Act that pertain to imported services**

Imported services are defined in section 1 of the definitions to the Value -Added Tax Act No. 89 of 1991 as follows:

“imported services means a supply of services that is made by a supplier who is resident or carries on business outside the Republic to a recipient who is a resident of the Republic to the extent that such services are utilized or consumed in the Republic otherwise than for the purpose of making taxable supplies”.

(The VAT Act.p625.)

The VAT Act states that, “Services means anything done or to be done, including the granting, assignment, cession or surrender of any right or the making of any facility or advantage, but excluding a supply of goods, money or stamp, form or card contemplated in paragraph (c) of the definition of goods”.

(The VAT Act.p630.)

The VAT Act differentiates between goods and services and their VAT treatments and the VAT Act states that “goods means corporeal movable things, fixed property any real right in any such thing or fixed property, and electricity, but excluding—

- (a) money;  
any right under a mortgage bond or pledge of any such thing or fixed property;
- (b) and  
any stamp, form or card which has a money value and has been sold or issued by the State for the payment of any tax or duty levied under any Act of Parliament, except when subsequent to its original sale or issue it is disposed
- (c) of or imported as a collector's piece or investment article;”

(The VAT Act.p625.)

Imported services is when a resident from the Republic of South Africa (SA) purchases from a non-resident who carries on business outside South Africa where services are consumed other than for the purposes of taxable supplies, in South Africa. VAT must be declared on the imported services (Goeydeniz, 2010).

There are only a few reported cases to assist South Africans in dealing with their VAT challenges but because of the similarity between other countries and South Africa's VAT Act, some guidance is offered (Gad, Badenhorst and Volgelman, 2012).

VAT that is imposed on imports while exports are zero-rated, South Africa like most countries follows the destination principle for VAT (De Wet, 2015).

#### **2.4.1 Exemptions**

VAT is not payable on imported services where –

- The supply is standard rated in terms of the VAT Act; or
- The supply would be exempt from VAT or zero rated in terms of the VAT Act if supplied in SA; or
- The educational service is a supply by an educational institution regulated by an educational body in a foreign country; or
- A non-resident is an employee which supplies the service in terms of an employment agreement.
- The value of the service is not greater than R100.

VAT is imposed on the supply of any imported services by any person on or after the commencement date, in terms of section 7(1)(c) of the VAT Act. The VAT output is derived from the value of the supply and is not payable/ paid by the foreign supplier but by the recipient of the imported services, in terms of section 7(2) of the VAT Act. (SARS, 2015)

A supply of imported services shall be deemed to take place at the time an invoice is issued by the supplier to the recipient in respect of that supply or the time any payment is made by the recipient in respect of that supply, whichever time is the earlier (VAT Act, 1991).

## **2.4.2 Market Value of a transaction**

The value placed on the supply of the imported services should be the greater of open market value or the consideration of the supply (VAT Act, 1991).

Example of Value:

UKZN, a VAT vendor, decided to renovate a building which is to be used solely for the purposes of generating exempt supplies. The University obtains various quotes from Vendors in SA and discovers that it will cost about R 114 000 including VAT. (R 57 000 for services and R 57 000 for materials). UKZN decides that the quotes are too excessive therefore contacts a related University, Oxford, which carries on business in the UK to undertake the construction via one of its subsidiaries (construction company) which is also situated in the UK. UKZN obtains all the building materials for R 40 000, including VAT, and pays Oxford/the subsidiary R 20 000 for services rendered (SARS,2015).

The Value of the supply will be the greater of;

The amount payable to Oxford/Subsidiary, that is, R 20 000, or

The open market value of R 57 000 (including VAT).

Therefore, the VAT payable = R 50 000 x 14% = R 7 000

Oxford/Subsidiary is a non- resident and is providing services to UKZN, a South African University. UKZN utilizes the services for a wholly exempt activity. Therefore the service will qualify as an imported service (SARS, 2015).

Related party transactions also can be deemed to be imported services if they meet the definition (VAT Act, 1991).

## 2.5 Electronic Services

On 1 June 2014, new legislation compelled non-resident suppliers to charge VAT on all supplies that meet the electronic services definition. A foreign supplier needs to be a vendor in terms of the VAT Act or use an agent who is a vendor for all its electronic services transactions in South Africa (National Treasury, 2014).

The VAT Act defines 'electronic service' as "those electronic services prescribed by the Minister by regulation..."

The New Zealand Government recently published their proposal in a discussion paper to ensure Goods and Services Tax (GST) is declared and collected on imported services. This change has emanated due to non – resident suppliers have the pricing edge over resident suppliers, by not charging GST and thus making their goods cheaper than the local goods sold. This loophole is costing the government 180 million New Zealand dollars a year. GST on E- commerce is a priority for the government and it will bring GST neutrality between the local resident and non-resident companies which should level the playing fields for demand. The New Zealand government estimates that the local suppliers should generate 40 million New Zealand dollars as additional revenue per year.

Critics of the proposed changes of GST on imported services believe due to the GST being imposed, smaller non- resident companies will be reluctant to trade and the New Zealand consumer will lose (RSM New Zealand 2015).

Mungadze (2014) advises that government plans to levy VAT on foreign entities that sell electronic services to South Africa should result in additional VAT revenue of R 980 million a year and this is a cautious way to tax the electronic economy.

The National Treasury has issued a draft regulation on 31 January 2014 prescribing what electronic services will entail. In general, it includes services that are supplied by means of any electronic agent, electronic communication or the internet for any consideration. These services are educational services, games and games of chance, information system services, internet-based auction services, maintenance services and miscellaneous services such as the supply of any e-book, film, images, music, software, subscription service and certain rights associated with such services. The

new rules are designed to compel non-resident suppliers of e-commerce services to South African residents, or when the payment for such services is made from a South African bank account, to register for and charge VAT in SA in respect of electronic services transactions taking place on or after 1 June 2014 (National Treasury, 2014).

## **2.6 Decisions arising from Case Law**

In the Case of Metropolitan Life Ltd vs Commissioner, in conducting its business Metropolitan used overseas computer services, business advisors and consultants. They were of the opinion that the services rendered were zero rated in terms of the VAT Act. SARS disagreed with the appellant and raised VAT assessments and the Special Income Tax Court ruled in favour of SARS. The court found that the transaction was not zero rated but was exempted from imported services. Judge Davis view was that the VAT Act can be exhaustive of the cases on exemptions with respect to imported services which may well otherwise have been charged under section 7(1)(c) of the VAT Act.

## **2.7 Exceptions to the Rules**

The Revenue Laws Amendment Act No 20 of 2006 was implemented to support Government guarantees to International Federation of Association Football (FIFA) and the purpose of this Act was to ensure a tax free bubble was created around FIFA designated sites. This Act changed the rules of imported services within the designated sites, VAT was levied at zero rate and input VAT was claimed. In addition to the FIFA, FIFA subsidiaries and the participating national associations excluding South African Football Association (SAFA) were effectively exempt from all South African taxes.

## **2.8 E-Commerce**

The tangibility of any property is the key issue of determining if the supply is goods or services. Electronic supplies are regarded as imported services because they are intangible supplies. To clarify by means of an example what goods and services are: a book is regarded as goods and the online version of it is a service, this emphasizes the tangible versus intangible principle (Goeydeniz, 2010).

Electronic commerce which forms part of imported services is one of the most topical issues in VAT currently. If VAT is declared on imported services in terms of section 7(1)(a) of the VAT Act, this transaction cannot attract VAT under section 7(1)(c) of the VAT Act which relates to electronic services (De Wet and Du Plessis, 2004).

Each country has different taxation laws and rules and the consumers' behaviour patterns could shift from purchasing locally to foreign purchases. One of the reasons for this is that foreign purchases are free of tax and VAT is included in local purchases which makes it more expensive (Jones & Basu, 2002). According to Hofmeyer (2016) the Base Erosion and profit shifting (BEPS) project is to level the playing fields in the problematic areas of tax practices that are harmful, country by country reporting and treaty shopping. The person receiving the imported services must declare the VAT to SARS.

According to Goeydeniz (2010) the use of electronic ecommerce is not affected by the nature of the transaction. The electronic version of information usually offers more functions than the printed version, as a result users prefer electronic information as compared to the printed version. The 1998 Ministerial Conference in Ottawa concluded that taxation of conventional and electronic commerce must be equitable and fair (OECD,1999).

## **2.9 VAT Neutrality**

The cheap prices and tax benefits are the reasons for goods and services being imported from foreign suppliers (French, 2013). It is important to identify the final consumption hence knowing whether the services are imported or not. The VAT treatment of imported services achieves the VAT neutrality and tries to provide a fairer level to compete between resident and non- resident suppliers (De Wet 2015). The taxation of imported services is critically important to level the countries playing fields for domestic businesses and economic development (Oka, 2013).

VAT neutrality is achieved by limiting imported services to private, non- taxable and exempt supplies. If an imported service is included as taxable supplies in terms of section 7, 8 and 11 of the VAT Act, any VAT charged would be able to be claimed back hence it would serve no purpose to include taxable supplies to the definition of an imported services. VAT payable on foreign payments that are defined as imported services is referred to a “reverse charge rule”, the purchaser pays the VAT on the supply (Ernst & Young, 2015.p1.).

## **2.10 Protecting Domestic Industries**

Governments will always protect the domestic markets for economic growth and increase employment (Van Rensburg, McConnell & Brue, 2011). VAT levied on imported or electronic services is a protection mechanism created to discourage foreign purchases and increase domestic purchases.

The application of free trade defines globalization. Trade liberation of a country is removing trade barriers. Imposing trade barriers on goods imported makes local goods more competitive (Spruiell, 2006). Subsidies paid to local producers and tariffs imposed are examples of trade barriers. A tariff is a tax on the import of foreign goods. Protectionism is the term used as government’s policy to impose trade barriers (Van Rensburg, McConnell & Brue, 2011).

Advantages of protectionism:

- To protect the jobs in the local markets, many people can lose their jobs if cheaper goods are purchased from foreign supplier's, for example the United States of America protects its steel industry from countries like Brazil.
  - To protect the domestic industry, if left unprotected for too long the industry will eventually collapse which will result in the country needing the commodity from the foreign supplier.
  - The amount of subsidies and tariffs must be on par with other countries because during negotiations they can be used as bargaining tools.
- (Spruiell, 2006)

The South African Broadcasting Corporation (SABC) announced on the 11 May 2016 all its radio stations will play 90% local music and all 18 radio stations will prioritise SA music from the day following its announcement. This move by government is to protect the domestic music industry (eNCA News, 2016).

## **2.11 Reasons for using offshore suppliers**

Countries can take advantage of specialization when they experience different opportunity costs in production. The benefits of specialization are as a result of the nations' comparative advantage in efficiency of production. It was also noted that there are advantages and disadvantages on the economy of a country. A country that is naturally good at producing something it specializes in and the average cost of production is low because more goods are produced. Globally the demand is high due to the specialization and low prices and consumers benefit. Disadvantages due to specialization is it makes the country that buys the products vulnerable and too dependent on the foreign supplier. Countries buying the foreign goods neglect to support their own economy for example the South African textile industries cannot compete with the Chinese imports. This leads to uncompetitive sectors in the domestic market and no demand for local products which decreases the gross domestic product (GDP) for the country and results in an increase in structural unemployment (Boundless, 2016).

Domestic recipients of foreign services benefit from higher productivity because of the lower costs and diverse overseas service providers (Mitra & Ranjan, 2010). Overseas suppliers immediately have a comparative advantage in countries that are not so efficient and cannot compete with the foreign prices. By transacting with foreign suppliers invaluable lessons and experiences can be attained (Schworer, 2013). Better quality and quantity are the benefits of using foreign services (Winkler, 2010).

The manufacturing sector from 1995 to 2008 results have proved that offshoring services have effected productivity positivity (Schworer, 2013). However some studies prove the contrary that using offshoring services have a negligible and negative effect on production (Ito & Tanaka, 2010). But there were more studies that found that using overseas suppliers has a positive effect on production (Seok & Saghaian, 2016). Empirical results shows that using overseas suppliers with all other factors being constant, increases productivity and is effective (Seok & Saghaian, 2016).

## **2.12 The Destination Principle**

The destination principle is accepted and applied by many countries but there does not seem to be a consistent way of implementing it practically (Oka, 2013). The inconsistent application of VAT makes it ineffective and unfair and unequitable globally. The SA VAT system is based on where the services are consumed or destination principle in South Africa, the location of the supply is not considered (Janse Van Rensburg, 2011). Electronic and intangible services transactions between different countries can be problematic because there are no rules to determine location of the supply. Carstens (2012) also stated that unlike other countries that impose VAT, South Africa does not use the place of supply rules to tax the imported or electronic services. The place of consumption definition is difficult to determine without specific place of supply rules (Steyn, 2010). With no guidance on the place of consumption, does not mean if the imported service is not utilised in the Republic, it is not taxed in South Africa (SAICA, 2012). It is therefore difficult to determine if foreign supplier meet the definition of carrying on an enterprise in South Africa (Fryer, 2014).

In another country that has different place of supply rules to South Africa, the supplies could be subjected to double taxation and the recipient of the supply could be taxed twice, in each of these two countries (Janse van Rensburg, 2012). The Republic of South Africa has double taxation agreements (DTA) with various countries but the agreements are geared more to avoid the double taxation of Income Tax rather than VAT (Janse van Rensburg, 2012). It stands to reason that the VAT law in SA is not adequate enough to deal with cross border transactions and may have to be relooked especially because of problems encountered by compliance and identification issues (Van der Merwe, 2003). Deloitte & Touche (2010) also state that the South African VAT legislation has not been amended to identify the taxable nature of foreign payments especially when it comes to the massive increase in electronic commerce transactions.

Due to the fact that services and intangibles do not pass through border posts, makes them much more difficult to control than goods that are subject to border controls (OECD, 2015).

The following are the two types of transactions associated with imported and electronic services:

- When a non-resident transacts with a resident vendor, this transaction is known as a Business to Business or B2B transaction.
- When a non- resident transacts with a resident non vendor, this transaction is known as a Business to Consumer or B2C transaction

The two types of transactions will only give rise to an imported service if the service is not consumed in making taxable supplies (Van Zyl, 2013). De Wet (2015) stated that there is no difference between B2B or B2C transactions in many African countries' VAT systems.

### 2.13 Cross Border trade

The cross border transactions of two case studies with respect to the supply of intangibles and services have been discussed at the conference in Singapore to establish how these transactions should be taxed (Oka, 2013).

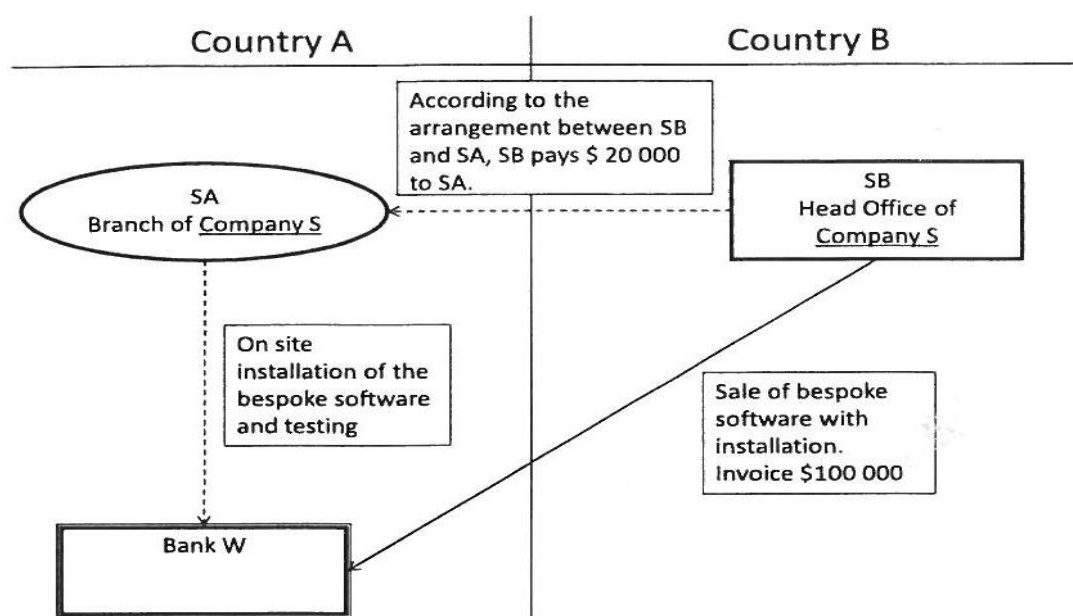


Figure 2.2: Cross Border Business to Business supply of service

Source: Adapted from Oka,N.(2013).p2.

The majority of the people participating in the case study responded that the location of the recipients business (Bank W) is where the place of taxation should be, in this case Country A. The reverse charge mechanism should be used to collect the VAT/GST from Bank W. This methodology is attuned with the place of consumption definition and the collection (Oka, 2013). If Country A is taxed on the services and intangibles, input VAT is allowed, there would be no effect on neutrality and taxation revenue but if the input VAT was not allowed it would effect to the tax revenue and neutrality (Oka, 2013).

By taxing the goods and services received from internal borders, governments in no way means to de-strengthen the countries international trading bonds (French, 2013).

There are many benefits that accrue from opportunities created for the poor people in each country, for example in South Africa, Chinese goods imported are cheaper than the local manufactured goods. This allows the poor to purchase goods they wouldn't ordinarily be purchased from the local producers (French, 2013).

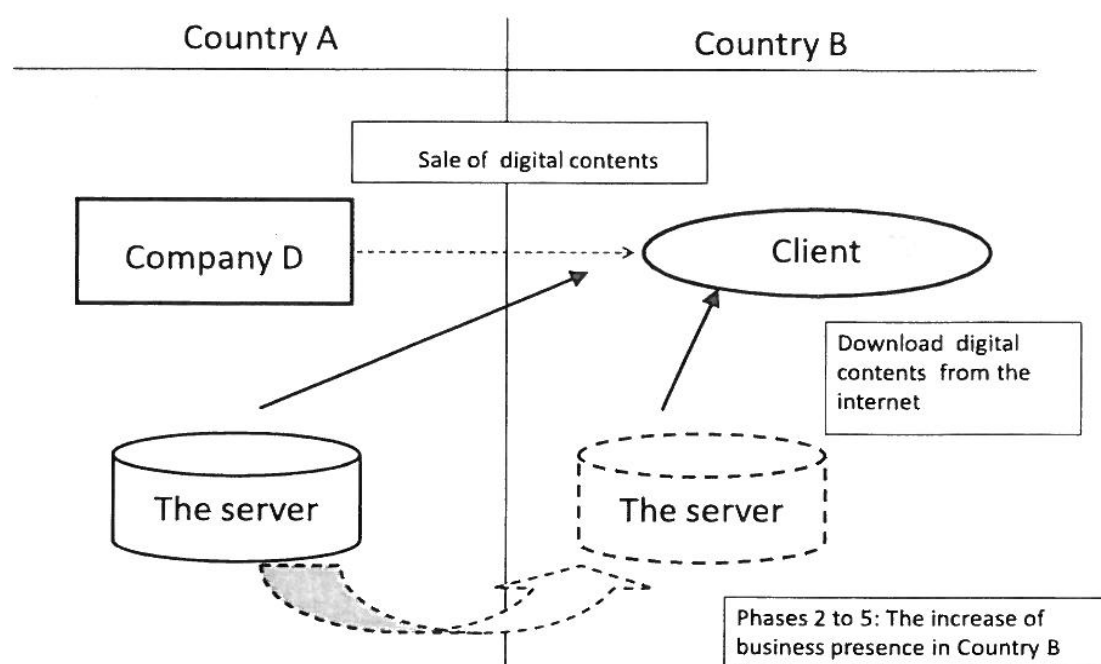


Figure 2.3: Cross Border Business to Consumer supply of service

Source: Adapted from Oka,N.(2013). 2013.p5.

In this case study the participants examined the implementation of the destination principle and the final consumer which is not a business is the recipient of the cross border supply of intangibles and services. Country B which is the location of the final consumption would be taxed. One of the key questions that would trigger the VAT/GST, is the ownership of the business establishment which is in Country B. Ideally the supplier in the foreign country should be taxed but until they have a business presence in Country B and in this case study, they did not (Oka, 2013).

## **2.14 Consumption of Imported and Electronic Services**

Burger (2014) states in order to qualify to meet the definition of imported services, the services must be consumed or utilised in South Africa. The services must be consumed in the furtherance of an enterprise to qualify as a taxable supply (Van Zyl 2013). In *Commissioner, South African Revenue Service v De Beers Consolidated Mines Ltd (De Beers)*, Judge Davis stated that the foreign services were consumed in the furtherance of an enterprise, was thus a taxable supply and not an imported service. This case ensured legal obligations in ensuring the conducting an enterprise will not be an imported service (De Koker and Kruger, 2013).

However, in the De Beers case, the Court of Appeal was not satisfied that the services were consumed outside South Africa. Decisions were made on advice from the board of directors meeting in South Africa and only 2 of the 5 major meetings did not take place in South Africa. The court ruled that because some of the meetings were held outside South Africa, did not alter the fact that the services were utilised in the Republic. The practical tests to determine the locations of the meetings and the ideas or decisions that emanated from these meetings, not every case can follow the same route. Silver and Beneke (2013) stated the uncertainty around the words 'utilised and consumed in the Republic' to mean where the resident receiving the service conducts its business or where the service is actually conducted (Van Zyl, 2013). If tangible services (seminars, conferences and etc) are consumed or utilised in the Republic, they will not be regarded as imported services if they were actually or physically rendered outside South Africa (Hull and Gibson, 2012). Burger (2014) agrees with Hull and Gibson that irrespective of the place of consumption, if the tangible service is conducted outside the Republic, it does not meet the definition of imported service.

When a South African resident attends a seminar overseas and returns to South Africa, there are no practical tests that can be done to determine what ideas and knowledge were acquired from the seminar, unless one is able to establish that the ideas are distinctively different and if the seminar was not attended by the person he

or she will not be able to create similar concepts obtained from the seminar (Van Zyl, 2013).

Van Zyl (2013) states that whether any benefits acquired from the services received outside South Africa does or do not transform to being used in SA, depends on various factors. When the services are performed and the benefits are not enjoyed in South Africa, output VAT is zero per cent.

In *Master Currency (Pty) Ltd v Commissioner*, it was established that the physical location of supply does not determine the place of supply of the service but the location the benefits are experienced.

In *Metropolitan Life Ltd v Commissioner*, South African Revenue Service, the taxpayer stated that the foreign services were rendered outside the Republic and qualified to be a zero-rated supply in terms of section 11(2) of the VAT Act. The court ruled that the services (international business advice and computer services) did not qualify as zero-rated supplies in terms of section 11(2) and SARS was correct in defining the imported services. Dendy (2012) argues that the physical place where the services are rendered determines the place of supply rather than the place of consumption. Although there were criticisms related to the ruling of the *Metropolitan Life* case, the place of supply rule is still the location where services are consumed.

Intangible services legal, financial advice, repairs to information technology (IT) software and etc, the jurisdiction of consumption and actual delivery may not be the same. Hull and Gibson (2012) argue that the place of consumption is 'where the benefit is felt or the service is experienced'. They also state that where the benefit is experienced in many other countries including South Africa, the place of consumption will be South Africa to the extent that the services were consumed in South Africa (De Beers, 2012).

## **2.15 Guidelines on place of taxation**

Practical examples of intangible services are legal, financial advice, repairs to information technology and etc. The VAT risks associated with international global trade are no taxation and double taxation of transactions without any harmonised international VAT rules or guidance. The International VAT or GST Guidelines (The Guidelines) were developed to ensure the consistent interaction of international VAT systems that enable international trade consistently and efficiently. Because of this most countries apply the destination method to account for VAT, rules in place tend to tax the location where the services are consumed. Due to the fact that imported and electronic services do not pass through border controls leads to many challenges and problems hence guidelines have developed to assist with the jurisdiction of taxation (OECD, 2015).

Principle 3.1 as per The Guideline reads as follows:

‘For consumption tax purposes internally traded services and intangibles should be taxed according to the rules of the jurisdiction of consumption’. (OECD, 2015.p 27-29). VAT systems in South Africa do not have “place of taxation” rules, the destination process ensures the imported services is subjected to output VAT in terms of the reverse charge mechanism and the recipient cannot claim the input VAT paid. Foreign suppliers of electronic services must register, charge and declare the VAT to the tax authorities, Ghana and South Africa are the only two African countries have adopted that this into their VAT legislation. South African legislation also allows representative South African residents that are VAT vendors to act on behalf of the foreign suppliers with respect to the foreign transactions, to charge, collect and declare the VAT to SARS (De Wet, 2015).

Principle 3.2 as per The Guideline reads as follows:

‘For the application of Guideline 3.1, for business- to- business supplies, the jurisdiction in which the customer is located has the taxing rights over internationally traded services or intangible’. (OECD, 2015.p29).

De Wet (2015) agrees with guideline 3.2 in spite of African countries VAT systems that don't have rules for place of supply; this principle is line with the destination principle.

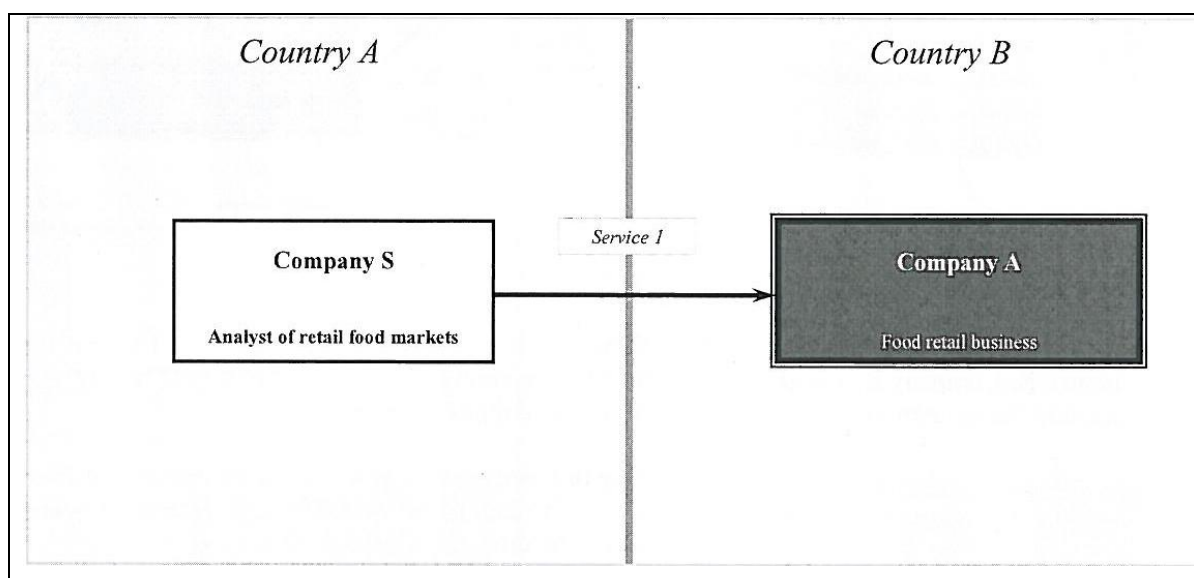


Figure 2.4: Supply between 2 separate entities

Source: Adapted from Organisation for Economic Co-operation and development (OECD).(2015).p62.

Company A is a food retailer in Country B and Company S specializes in analysing retail food markets. Both companies have no other establishments for VAT and entered into a business agreement where Company S will provide a service of analysing market conditions in Country A to Company A. Company S will be paid for the services rendered in terms of the business agreement.

Company S is the supplier and Company A is the customer, there is a supply of service between Company S and A which is a B2B supply. In terms of the guideline, Country B is the location of the Company A the place where the supply is taxed. It makes no difference if the supplier and recipient are different legal entities or the same legal entity.

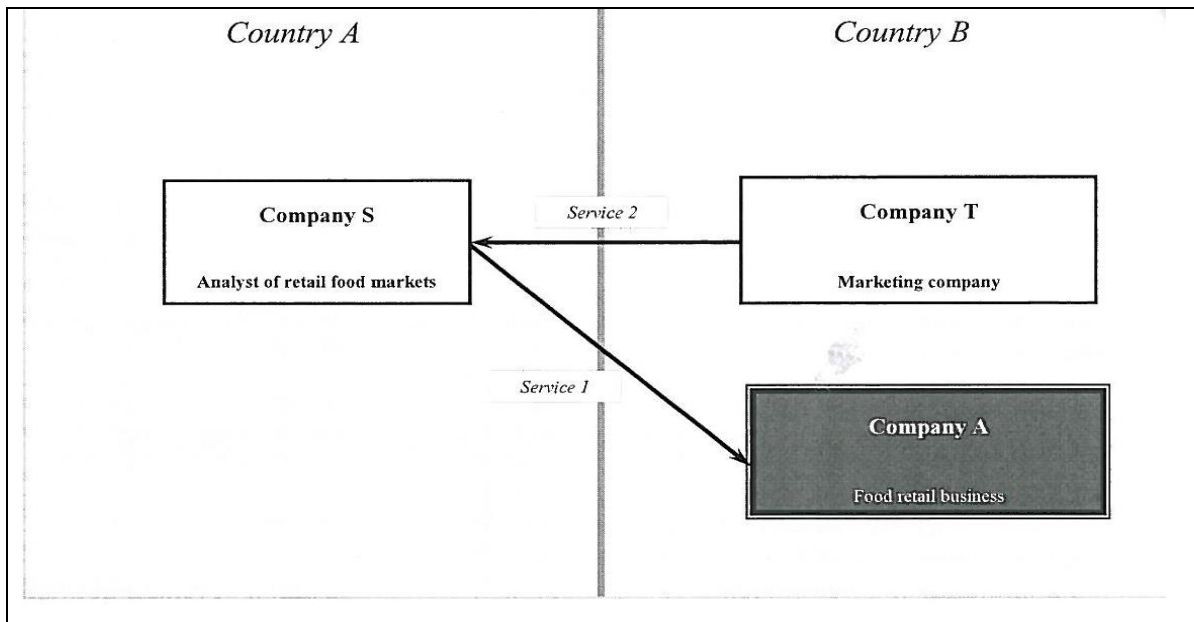


Figure 2.5: Two separate supplies between 3 separate entities

Source: Adapted from Organisation for Economic Co-operation and development (OECD). (2015).p63.

Service 1- Company S will provide a service of analysing market conditions in Country A to Company A

Service 2- Company S uses marketing Company T in terms of a business agreement. In terms of the business agreement, Company T is the supplier and Company S is the recipient. The supply in terms of the business agreement Company S is the recipient and Company T is the supplier. In terms of this Guideline, Country A is the location of the company which is where the customer is located.

Service 2 is taxed as per Example 1 above.

Principle 3.3 as per The Guidelines reads as follows:

‘For the application of Guideline 3.2, the identity of the customer is normally determined by reference to the business agreement’ (OECD, 2015).

De Wet (2015) agrees that guideline 3.3 would in most instances indicate where the recipient is located, to achieve and implement this guideline, the crucial proxies together with effective systems must be in place.

The VAT systems in South Africa does not differentiate between B2C and B2B transactions, in terms of the VAT law the non-resident must register and declare output VAT on foreign electronic transactions, if any two of the following are met:

- A South African Bank is used to make payment;
- The postal, residential and business address of the recipient is in the Republic;
- The recipient is a South African resident.

(National Treasury, 2014)

De Wet (2015) states that it is difficult in practice to prove that the recipient is a resident of the Republic, it must meet the definition of ‘the resident’ in section 1 of the Income Tax Act and additional VAT tests.

## **2.16 On The spot Supplies**

Principle 3.5 as per The Guidelines reads as follows:

‘For the application of Guideline 3.1, the jurisdiction in which the supply is physically performed has the taxing rights over business-to-consumer supplies of services and intangibles that

- Are physically performed at a readily identifiable location, and
- Are ordinarily consumed at the same time as and at the same place where they are physically performed, and
- Ordinarily require the physical presence of the person performing the supply and the person consuming the service or intangible at the same time and place where the supply of such service or intangible is physically performed’.

(OECD, 2015)

De Wet (2015) agrees that the location where the supply is physically performed is a suitable proxy in the determination of taxing jurisdiction but this could be problematic for countries that have not followed this approach. He does recognise that it is difficult to meet all three requirements and might limit this guideline and would make it tough to apply. The jurisdiction of the supplier could also be used as an alternate proxy to the jurisdiction of performance which would eliminate any risk or uncertainty issues. For countries like South Africa where the distinction between B2B and B2C supplies are not made, the requirements in guideline 3.5 can be used and this is a compliance relief to on the spot suppliers, they don't have to differentiate between businesses or final consumers (OECD, 2015).

## **2.17 Information needed to perform at the workplace**

Williams (2014) state that be critical when you receive information, ask enquiring questions and understand it, don't take its face value meaning for granted. People that are open to supervision rather than accepting and following advice at face value, solve problems better than individually (Garvin & Margolis, 2015). People seeking and giving advice must clear all previous ways of thinking and be unbiased for there to be a positive exchange of information. Both giver and receiver need tolerance, control, tact, emotional intelligence and self-awareness, otherwise the exchange of information can be distorted in many ways (Garvin & Roberto, 2015).

People must identify the areas they need advice and seek direction from the right individuals. People are at times guilty of being overconfident and the egocentric bias in assessing their own competence based on previous knowledge. It is risky when people shy away from seeking proper advice and will use any means possible not to receive it. Field studies confirm the advice seekers prefer to obtain information from people they know and are friendly towards them than specialists or professionals. History has shown that President John F Kennedy did not use his Secretary of Labour expertise in guerrilla operations and made a mistake in the Bay of Pigs invasion. Discounting the advice received is one of the most common mistakes made. Research

shows that people accept advice more easily from a confident source which may not be valid (Garvin & Roberto, 2015).

Unclear and vague advice may be misinterpreted and lead to incorrect decisions. It is rare to find seekers sticking to the advice they receive, they change it or combine it with other advice or don't use it at all (Gino, 2015).

## **2.18 Erosion of the tax base**

Ecommerce makes it difficult for governments to keep track of all transactions and hence creates an audit trail problem for sales generated in the country. This results in the countries' tax base being eroded by shifting taxable profits to jurisdictions that offer more favourable tax benefits. The tax revenues can easily go undetected by transacting via the Internet which encourages tax evasion and leads a de-stimulation of growth in the economy. Governments around the world have become concerned with the increased growth of e-commerce transactions in the past and with respect to future predictions. The fundamental problem with e-commerce is that the erosion of the tax base is mainly due to tax avoidance and tax evasion (Fryer, 2014). Governments acknowledge that the erosion of the tax base can make or break the sustainability of their economies and they understand the importance of finding ways of curbing and reducing tax avoidance and tax evasion within its boundaries (Jain, 2013). Mr Thabo Mbeki stated that African countries are losing a lot of cash through profit shifting and base erosion and his foundation is working hard to solve this problem. Ninety billion dollars is illicitly leaving Africa and Mr Mbeki is calling for the commercial sector to curb this outflow (Cele, 2016)

Base Erosion and profit shifting (BEPS) deprives the economy from growing, dealing with economic emergencies and opportunities for its population. The trust of the people is being eroded by BEPS. Reducing and curbing BEPS is the responsibility of every citizen of the country. The leaders of the G20 countries have requested the OECD to structure an action plan to stop tax avoidance internationally. The OECD have presented a plan which is centered around the following three essential pillars:

- Comprehensible domestic laws that are in corporate international cross border transactions.
- International Taxation standards are aligned to the taxation of the location of value formation and economic activity.
- An improvement in transparency in governments and businesses.

This plan allows different countries to report to each other which will allow the tax authorities of different countries to see the bigger global picture of international transactions and prevent previous bad tax practices, like double taxation. The collection of VAT in the digital arena has been identified as an important objective to curb BEPS. (OECD, 2015). Ninety countries have been working on a multi-national tax treaty instrument, to incorporate the BEPS procedures. Interested countries can sign this instrument as early as 2016 (OECD, 2015).

The BEPS project emergence of new minimum international standards and unilateral measures replacing the current framework, might result in international pandemonium and double taxation reappearing (Hofmeyer, 2016).

SAICA believes the BEPS project plans are laudable. Domestically and internationally the plans are reasonable and useful. From a South African context, the government must ensure that the National Development plan is aligned with the BEPS project plans, this could ensure multi-national Enterprises and corporate taxpayers in South Africa invest copious resources on local anti-avoidance tax measures. This will be advantageous for the South African Revenue Services (SARS) as it would enable them to collect revenue to the South African fiscus, given that government has curbed its spending and corruption (Hofmeyer, 2016).

## **2.19 Apportionment**

Example: A Foreign supplier in France renders an import service to a South African vendor. The services are partly utilised in France and partly in South Africa by the South African vendor (adapted from Van Zyl, 2013).

According to Van Zyl (2013), when foreign services meet the definition of imported services and its consumption and utilization is in South Africa, output VAT should be declared on the services paid or accrued, whichever is the earlier. At times case law is used to assist the taxpayers, SARS or the courts in determining the principle of consumption and where the services are consumed in and outside the Republic (foreign country), by virtue of being partly utilised in South Africa, output tax is applicable on the foreign services. But it would be unfair to tax the vendor fully on part consumption in South Africa, the vendor also utilised the services in France, the VAT portion should be taxed in terms of the VAT Act. In South Africa the vendor will determine the domestic and foreign apportionment amounts using the reverse charge rule. When this amount is audited by SARS, reasonable calculations together with supporting documentation should be available to support the apportionment (Van Zyl, 2013). Dendy (2012) argues that the place where the services are rendered should determine the tax implication of the services and the location where it is utilised is not relevant due to the fact the services were rendered outside the Republic and is zero rated in terms of section 11(2) of the VAT Act.

## **2.20 Enforcement**

When the recipient is unregistered for tax or a private consumer in a country, it is very difficult for the tax authorities to enforce compliance. The supplier should ensure they are transacting with a tax compliant recipient but to make it the supplier's responsibility to pay the tax to SARS, is almost impossible if the supplier is in a different country (Van der Merwe, 2003). Different or inconsistent rules internationally result in incorrect taxing of the imported services (Classen, 2012). If one country uses the destination principle and the other country uses the origin principle, this could cause confusion because VAT charged could be double counted on the supply (Mahlunge, 2014).

In *Krok v Commissioner of South African Revenue Services*, SARS assisted the Australian tax authorities by means of a tax treaty to enforce the debt of an Australian taxpayer. SARS needs to ensure there is more mutual assistance by means of international treaties between South Africa and other countries to strengthen their enforcement (Louw and Botha, 2014).

According to Pastukhov (2010) tax revenue authorities are faced with a tax dilemma with respect to the implementation costs of tax compliance versus tax collection.

## **2.21 Compliance**

Following the introduction of the electronic services regulation in 2014 it was brought to the attention of the South African Revenue Service (SARS) that the Higher Education sector failed to comply with the VAT on imported services. When the sector realised that they had a historic liability in respect of this, Higher Education South Africa (HESA) and the Department of Education (DHET) met with SARS and National Treasury in an attempt to manage the risk on behalf of the sector. However after various submissions and meetings, HESA was instructed to submit R1 in terms of the Voluntary Disclosure Relief programme (the VDP) on behalf of the university sector to limit the exposure until such time individual institutions have quantified their liability (HESA, 2015).

SARS indicated that individual institutions had until the end of March 2015 to finalise their calculations and submit the amended VAT returns. Each university had to quantify their own liability in this regard and submit the VDP together with amended VAT returns via their own VAT e-filing profile for the relevant periods. The amended VAT returns per financial year were required in terms of the agreement with SARS. While SARS and National Treasury indicated that there will be no financial assistance available to the universities, it will be possible to make a payment arrangement with SARS and the liability for the five years will not be payable up-front but in instalments. However individual institutions needed to request the payment arrangement independently from SARS. VAT returns for subsequent tax periods were amended with the output tax liability of the imported services (HESA, 2015).

## 2.22 Audit

The effect of the supplier and recipient transacting directly with each other results by not adhering to many compliant processes to the agreement, the documentation needed for a tax audits on suppliers is sometimes difficult to locate (Holdstock, 2013). The reasons for non-compliance are inefficient tax administrations, tax legislation complexity and the degree of tax burden (De Mello, 2009).

The validity of the input tax claimed is a critical aspect of SARS VAT audits and they ensure each input claimed is verified by supporting documentation, mainly tax invoices in terms of section 20(4) of the VAT Act. Non-compliance can be easily detected by the audit trail of invoices. The model below is a solution to a differential game about VAT evasion between the tax revenue authority and the taxpayer (De Mello ,2009).

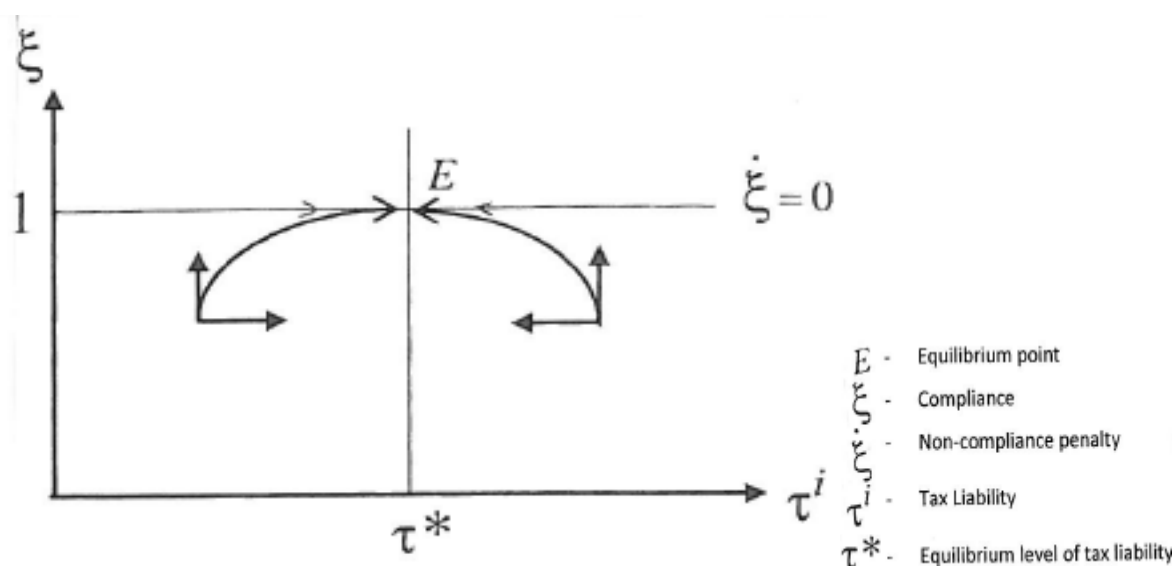


Figure 2.6- Nash Model Equilibrium

Source: Adapted from De Mello,L. (2009).p34.

The solution is also that the non- cooperation equilibrium is dependent on resources born by the taxpayer in tax evasion or avoidance and enforcement of the Tax Acts by the revenue authorities, on condition that the curvature of the utilities tasks of the

taxpayer and the revenue authorities are bound. Empirical studies in this area are complex due to the fact that tax evasion and avoidance is not openly evident.

The Nash Equilibrium model is universal to incorporate VAT. Taxpayers are incentivized to transact with taxpayers that have complied with and registered with the tax law, to qualify and get any credit due, one way of achieving this using the invoicing system is a self-enforcing mechanism for the VAT collection. The taxpayer's tax liability is reduced by the credits due. It can therefore be deduced that self-enforcing tax mechanisms results in lower enforcement costs by the tax revenue authorities and vice versa. In this case the tax authority's enforcement costs are comparative to the taxpayers compliance costs (De Mello, 2009).

## **2.23 Tax Invoices**

Issuing an invoice for an imported service and a tax Invoice for an electronic service is a compliance mechanism for payment and proves that the correct amount of VAT is shown on the tax invoice. Sometimes, VAT that relates to the foreign country is charged to the South African resident on their invoice.

In terms of section 20(4) of the VAT Act, apart from zero rated supplies, all figures including the VAT amount must be in South African currency.

It was noted that on the odd occasion the tax invoices with respect to electronic services are in a foreign currency and this is contrary to section 20(4), which makes the input claimed invalid and not deductible as input tax (VAT Act, 1991).

## **2.24 Conclusion**

The imposition of VAT on foreign payments has a less severe impact on the economy but will affect the end consumer. Imported services is defined in terms of the VAT Act but the definition is not easily interpreted there can be confusion on whether a foreign payment is an imported service. Court cases, local and overseas literature must be examined to gain a better understanding. Governments around the world are losing monies with ecommerce and countries' tax base are being eroded. The OECD at the request of the G20 leaders have devised an action plan to curb problems experienced with BEPS. Compliance with respect to VAT on imported services was triggered by the introduction of electronic services definition into the VAT Act and this was a challenge for vendors to ensure that foreign suppliers are tax compliant. Documentation is critical to VAT audits and theory states taxpayers would prefer to deal with other taxpayers that are tax compliant.

Hence the information in this chapter substantiates the theory of the research questions.

## **CHAPTER THREE**

### **Research Methodology**

#### **3.1 Introduction**

It describes and substantiates the choice of methodical techniques and approaches employed for gathering data. This includes a discussion on the basic research design, the sampling and data collection as well as the techniques used to analyze the results. The degree with which the research question has been crystallized require a study designed to gather a comprehensive understanding of the implications of imported and electronic services at University of KwaZulu Natal (UKZN).

#### **3.2 Aim of the Study**

To establish the relationship between tax legislation and its implementation at (UKZN).

#### **3.3 Participants and Location of the Study**

On the 1 January 2004 the two Universities of Durban-Westville and Natal merged resulting in the establishment of UKZN, the largest University in Kwazulu - Natal (UKZN, 2012). The location of the study is UKZN which is divided into five campuses, Westville, Edgewood, Howard College, Nelson R Mandela School of Medicine and Pietermaritzburg. The University has four colleges, 19 schools, central finance, research office and other centres, the participants are mainly finance employees that work with imported and electronic services. The population includes all staff that work with the foreign payments. Participants were free to complete the internet-mediated, postal and delivered questionnaires in their own time. Only self – administered techniques were used with respect to the questionnaires.

Only staff that did not complete the questionnaire online were mailed or hand delivered the questionnaires.

### **3.4 Research Approach**

The research scope was derived by the guidelines and methods used within proven frameworks and what type of research is executed, from the data collected, what conclusions are arrived at (Williams, 2007). A framework that provides the gist of data gathered from the research study is called a research approach (Leedy & Ormrod, 2005).

Inductive or deductive research is possible within the framework. Testing a framework built on theory from literature, is deductive research (Denzin & Lincoln, 2005). Developing new theories from data is more inductive research.

The mixed, qualitative and quantitative methods are the three most common methods used (Creswell, 2003).

#### Quantitative Approach

Data that cannot be quantified and words that have meaning and can be analysed by the research approach. Raw data that has been quantified provides very little meaning but by using quantitative approach techniques enables one to identify trends and relationships (Saunders, Lewis and Thornhill, 2012). When both of the single approaches do not adequately address the subject matter researched, the mixed approach is recommended (Williams, 2007).

In terms of the quantitative approach there are various techniques of data collection, observing the participants, questionnaires and experiments. The quantitative approach collects data by way of surveys for statistical analyses. The research is descriptive and builds on relationships. According to theory one of the best ways to collect data from research is surveys. It's an expedient platform to collect information from a selected population. (Zikmund et al., 2013).

The mixed approach is a mixture of the qualitative and quantitative data collection techniques used in the research study (Saunders, Lewis and Thornhill, 2012).

The statistical analysis of questionnaires are very easy with the number of software available. Interviews are very costly due to travel time and the time spent with the interviewee. Unlike other instruments, as the number of questions increase, written surveys become more cost efficient (Walonick, 2011).

Most people are comfortable and experienced at completing the surveys as they are less laborious or time consuming than other instruments. Biasness of being interviewed is reduced by a standard questionnaire. There are no problems of clues given to sway a particular response. People are slow to complete mail questionnaires and this also applies to online questionnaires, despite this, both forms of communications will be used in the research (Walonick, 2011).

The quantitative technique allows the researcher to extract the features and views of the selected population (Abareshi and Martin, 2008). The questionnaire allow the description of relationships and characteristics from the production of organized data. Quantitative approach allows for the explanation of dependent and independent variables which reduces indistinctiveness in the analyses of data (Saunders, Lewis and Thornhill, 2012). The lesser the interaction of the researcher by administering the research instrument, the more honest and reflective the response will be (Zikmund et al.,2013). The quantitative approach also allows analyses of data collection in an effective and efficient manner (Abareshi and Martin, 2008). Therefore the quantitative is preferred to the qualitative approach.

### **3.5 Sampling**

According to Devers and Frankel (2000) the selection of the sample and population must be documented in detail when researched. The choice of the sampling technique and population will affect the collection, analysis and conclusion of the data (Gibbs, Kealy, Willis, Julie, Welch, & Daly J; 2007)

A population is all the subjects in the group that have the characteristics applicable to the research. A sample is a subgroup of participants that is representative of the population (Gibbs et al, 2007). The process of drawing out or choosing from the population is called sampling.

Non-probability and probability sampling are available. For probability samples, the probability of choosing a subject from the population is known. With non- probability samples the probability of choosing a subject from the population is not known. The researcher selects the participants from the population (Onwuegbuzie and Collins, 2007). Due to the limited number of participants working with Value Added Tax (VAT) on imported and electronic services, only these individuals could participate in the research study and be sampled. The total of the subjects in the population is 52. Bearing in mind some subjects are always likely to be non –responsive and don't want to be part of the research for various reasons. The number of subjects that do respond are likely not to be representative of the population if the sample is small when compared to the population. Therefore a high response rate is more representative of the population when the population is smaller than the sub minimum responses required (GSB, 2012). A high response rate instills data confidence (Saunders, Lewis and Thornhill, 2012).

Once the sample size has been determined, the most applicable non sampling technique should be chosen to answer the research question. Quota, purposive, snowball, self- selection and convenience non- probability techniques are available. Apart from the quota sampling method, the other techniques have low samples.

According to Creswell (2014) purposive sampling is based on a particular characteristic of the study that must be common with the participants. In this research study only participants that are from the Finance Section of UKZN and work with imported and electronic services were chosen in the sampling process.

Snowballing is another non- probability technique that can be used with purposive sampling. Snowballing is when the researcher uses informants to assist him or her to get potential participants. It was noted that in some department personal assistants (PA) were dealing with the payment of foreign payments and the VAT on imported and electronic services. The PA at times seek the advice of people who were informants in identifying these PA's that were potential participants and formed part of the population and sample selected. Choosing information rich participants that have information rich knowledge and informants are a big advantage in using purposive sampling (Leedy and Ormrod, 2013).

### 3.6 Data Collection

Questionnaires were used as a quantitative data collection technique and aided in the variability of different phenomena (Saunders, Lewis and Thornhill, 2012).

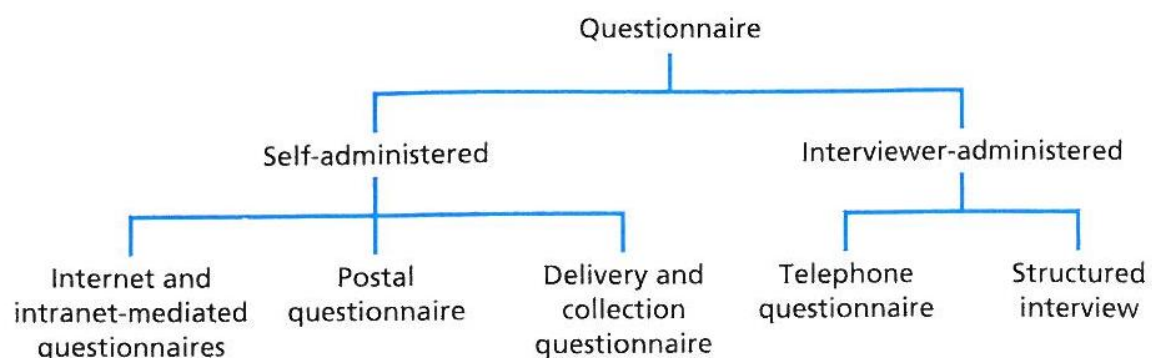


Figure 3.1: Types of questionnaires

Source: Adapted from Saunders, M., Lewis, A. & Thornhill, A. (2012). p420.

Self –administered questionnaires were used which reduces any form of biasness by the researcher and interviewer administered questionnaires were not considered.

A questionnaire link was emailed directly to the participants other than the Westville and Howard campus whose emailed addresses were available, follow up messages and reminders were sent to the respondents that did not complete the surveys. On a daily basis the portal was monitored to identify the number of unanswered questionnaires. Participants that failed to respond were telephonically contacted to complete the questionnaire. Participants that still did not complete it, were mailed the surveys and this method proved successful.

Participants in the Westville and Howard campus questionnaires were hand delivered and collected. It took numerous telephonic phone calls to ensure that some of the respondents completed the questionnaires. The target population for the questionnaires were participants from finance departments across all schools, colleges departments, divisions and central finance of UKZN that work with VAT on foreign payments. Accompanied to the questionnaires was an informed consent letter from UKZN stating the details of the researcher, supervisor and the research office that can be contacted should the participants have any concerns.

### **3.7 Development of the Instrument**

The instrument of choice is the questionnaire as stated in the previous points which is a group of questions that will collect the necessary information to meet the objectives of the research study.

#### Determine Survey Objectives

Ensured the questions were clearly worded per the survey and resonated the research objectives.

#### Determine the Question Response Format

Closed ended questions were used because the questions are predetermined and the participants prefer these type of questions because they are easy and quicker to

complete. From the researchers perspective these questions are easy to code and analyse, resulting in a reduction in the interviewer's biasness and measurement error (Zikmund et al.,2013).

### Wording of Questions

Avoided the following:

- Leading questions
- Double – Barreled
- Simple words
- Unambiguous words
- Loaded questions
- Hidden assumptions
- Onerous questions
- No advice on how to answer the questions
- Bias questions
- Inappropriate phrases
- Embarrassing and insensitive questions

The Likert- style rating scale was used for most of the questions, in which the participant has a five point rating scale, to determine how strongly the respondent agrees or disagrees with the statements. The balance of the survey is made up of category type questions, only one answer fits the question asked (Saunders, Lewis and Thornhill, 2012).

### Flow and Layout of Questionnaire

Demographic questions were asked at the beginning of the survey. Opened ended questions were limited due to it being time consuming and difficult to code and analyse. The funnel approach technique was used which is asking the general questions first and then the more specific questions later. The questionnaire flow is logical and has an easy flow to it.

### Evaluate the Questionnaire

Only relevant and valid questions were asked. Ensured the questionnaire should take not more than 15 minutes to complete. Only questions that will answer the research objectives were asked. The layout is smart and professional to the participant.

### The Final Copy

Pretesting of the questionnaire was discussed in point 3.8. The final copy was proofread by the supervisor and two independent people to ensure no problems are encountered upon completion. Thereafter the surveys were distributed to the respondents (Creswell, 2014).

## **3.8 Pretesting and Validation**

Measuring the validity of the instrument tool used to collect the data is very important because it must be reliable to measure what the researcher wants to measured (Saunders, Lewis and Thornhill, 2012).

Cooper and Schindler (2008) states that the construct, content and criterion – related validity must be taken into account when discussing the validity of the questionnaires.

### Content Validity

Refer to the extent that the measurement of the sub questions in the questionnaire deals with and adequately covers the research questions.

### Criterion – Related Validity

Is the ability of your questions in the questionnaire to make accurate predictions (Saunders, Lewis and Thornhill, 2012).

### Construct Validity

The generalization made from the questions in the questionnaire that measures the theoretical constructs that should be measured. Ensured the research questions were framed from the literature review done.

(Cooper & Schindler, 2008)

A research instrument is reliable if the same results are produced using a similar method. When independent observers produce similar procedures that result in consistent results, the study's conclusion is reliable and valid (Howell *et al*, 2005).

Before the questionnaire can be completed, it must be pretested. The questionnaires were pretested by the finance section that work with the area of study. Ensuring they had no problems with the wording and flow, the surveys were completed with the stipulated guided time lines of ten to fifteen minutes and there were no signs of boredom (Mouton, 2011).

Mouton (2011) states that if the data collected is reliable it will meet the validity criteria. He also emphasizes that the questionnaires are reliable when they are free from errors. The Cronbach's alpha was used to ensure the reliability of the questionnaires and is a common coefficient used in the quantitative approach (Saunders, Lewis and Thornhill, 2012).

The formula of the Cronbach's coefficient alpha is as follows:

#### FORMULA

$$\alpha = \frac{n}{n-1} \left( 1 - \frac{\sum Vi}{V_{test}} \right)$$

$n$ - number of questions

$V_{test}$ - the overall variance scores in the entire questionnaire

$Vi$ - variance of scores in each questionnaire

(Dlamini, 2009)

The calculation is done in Chapter 4. A coefficient alpha value between 0.6 and 1 reflects a good level of internal consistency and measures the reliability of the data collected (Sekaran and Bougie, 2013).

### **3.9 Analysis of the Data**

The data collection phase was closed when no further responses were allowed. The questionnaire responses were coded with pre - set codes, to reduce coding after collection and exported from questionpro into SPSS version 22 for windows and sorted for analysis (Saunders, Lewis and Thornhill, 2012). All errors noted in the data matrix were rectified. The data was statistically analysed using figures, tables and narrations.

### **3.10 Summary**

This chapter discusses the objectives and aim of the study. A university was chosen to do the study. It identifies the locations used and who were the participants of the study. It explains what research approach was used and the justification for it. The sampling technique used is explained and the deviation from the rule of thumb sample size. Questionnaires was the instrument of choice and how it can be used to collect the data for the research of study. The instrument's design is described. Pretesting and validation techniques used have been documented. Description of what tests are used and why they are chosen.

Chapter 4 is data analysis and interpretation which is data coding and a statistical analysis of the data collected. The Statistical tests used will be only descriptive in nature.

## **CHAPTER FOUR**

### **Presentation of Results**

#### **4.1 Introduction**

This chapter discloses the results and discussion of the literature review and a developed theoretical framework in chapter two. A variety of pie, lines and bars graphs are used. Questionpro was used to analyze the data in the study. Descriptive statistics in the form of percentages were computed. Percentages are graphically presented using graphs. Cronbach's alpha was computed for the Likert-scale questions.

#### **4.2 Analysis of Questionnaire**

##### **4.2.1 Presentation of Result:**

Figures, tables and narrative statistics were used to present the Tables 4.1 to 4.22 and occasionally the frequency distribution was used. Each question from section A was analyzed with either column, line, area or pie charts, section B,C and D was analyzed with bar, pie and column charts.

##### **4.2.2 Descriptive Statistics**

###### **• Frequency Distribution Statistics – Tables 4.1 to 4.10**

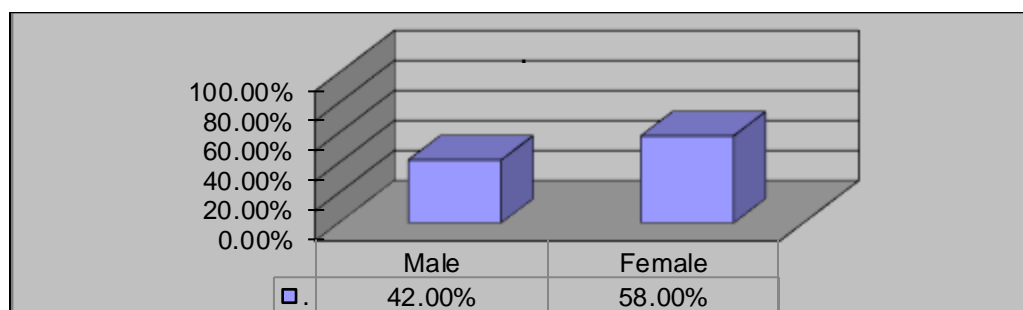
Descriptive statistics in the form of frequency (count) and percentages were computed for individual variables in section A,B,C and D.

###### **Cronbach Test**

The Cronbach's coefficient alpha is a common test to measure the reliability of the data collected from the questionnaires. Using the formula to calculate it the value is 0.798 which means the data collected is reliable and valid (Sekaran and Bougie, 2013).

## SECTION A: DEMOGRAPHIC INFORMATION

**Figure 4.1: Bar chart reflecting the gender**



It is evident from Figure 4.1 females make up the majority of the sample (58%) that completed the questionnaires. Hesa (2016) states that female non-academic staff members are higher than their male counterparts. The University of Oxford (2013) report for the 2010/2011 year show the percentage of females in the administrative and support sector were 59%.

**Table 4.1: Frequency distribution on age**

Age	Percentage(%)	Count
Less than 20 years	0.00%	0
Between 20 and 29 year	10.00%	5
Between 30-39	34.00%	17
Between 40-49 years	32.00%	16
Between 50-59 years	24.00%	12
60 years and older	0.00%	0
Total	100.00%	50

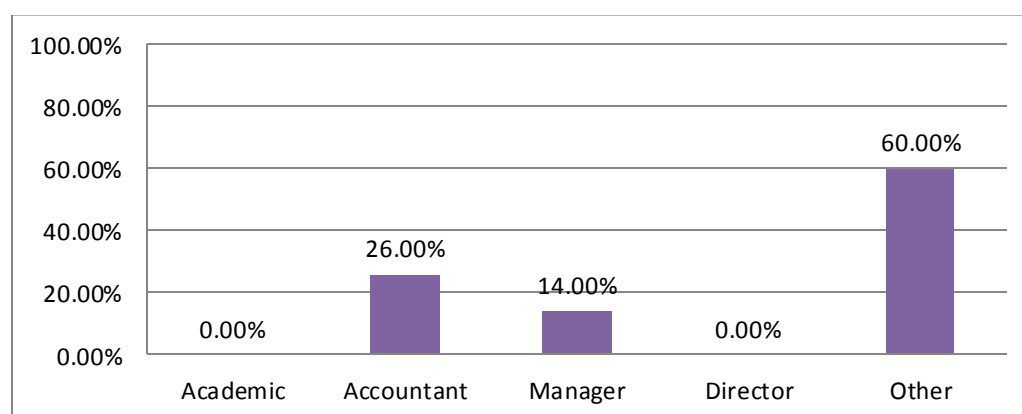
It is evident from Figure 4.2 and Table 4.1 that the 34% of the participants were between the ages of 30 to 39 years old.

**Table 4.2: Frequency distribution on years of service**

Number of years in service	percentage(%)	Count(N)
< 5 years	20.00%	10
6-10 years	22.00%	11
11-15 years	24.00%	12
16-20 years	18.00%	9
Greater than 20 years	16.00%	8
Total	100.00%	50

The years of service, eleven to fifteen years (24%) is evident from Figure 4.2. The restructuring in 2011 and 2013 in UKZN explains the close number of years of service (< 5 years, 6-10 years and 11-15 years). Staff with years of service that are 16 and greater have left and new staff have been employed to replace the staff that have left. Shahzad, Hayat, Abbas & Rehman (2011) explains that the disruptions and uncertainty of employment in the workforce has resulted in the high staff turnover in the workplace.

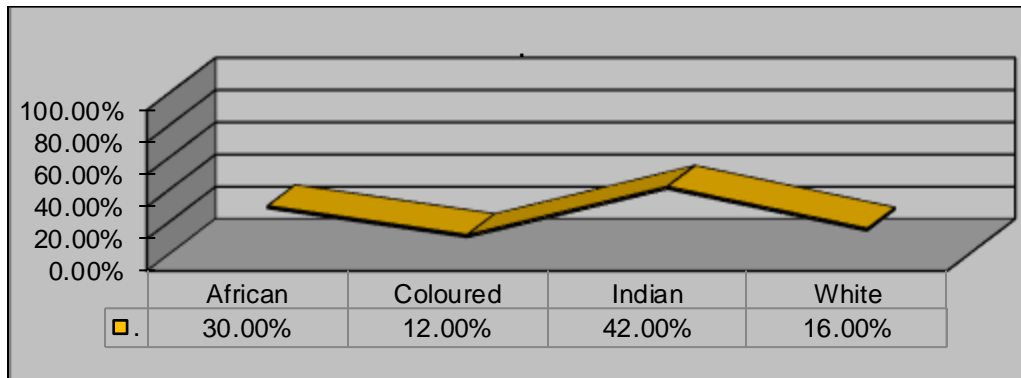
**Figure 4.2: Bar chart indicating current position**



It is evident from the Figure 4.2 that the majority of respondents were other (60%) followed by accountants (26%) and managers (14%). Other is represented by finance officers, administration officers, administration assistants and personal assistants. A large part of the work with respect to foreign payments is administrative in nature. The

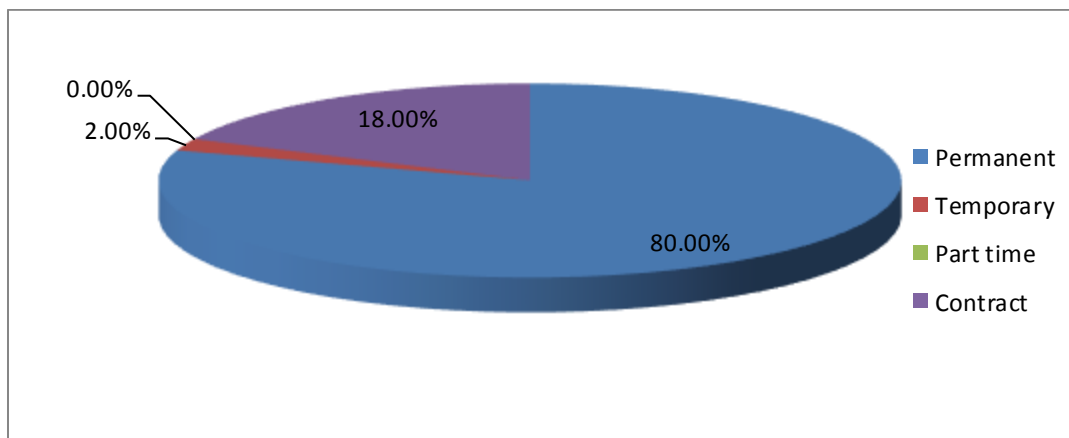
checking and approval for payment is done at a higher level which involves accountants and managers.

**Figure 4.3: Line chart indicating race**



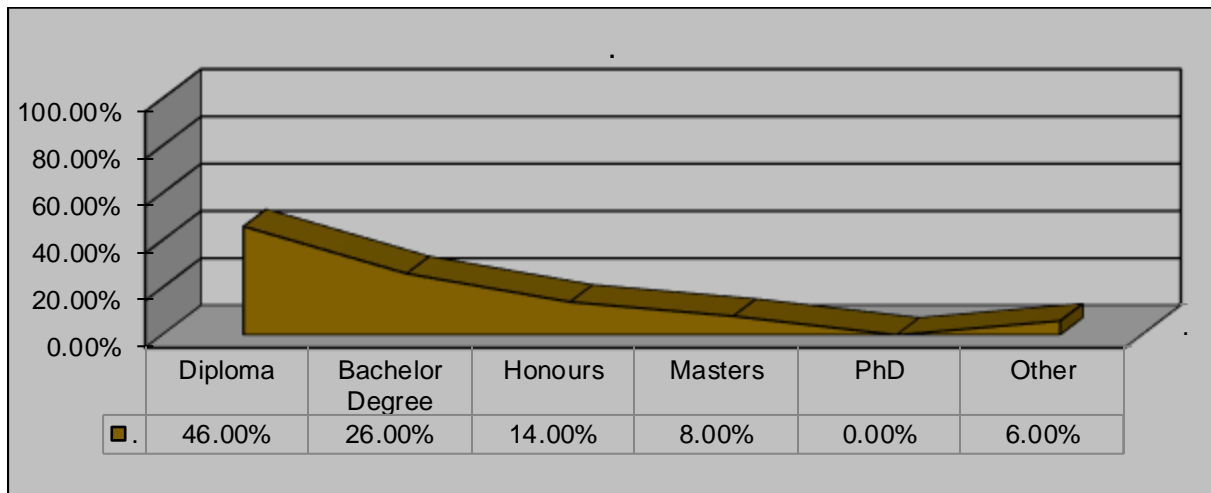
It is evident from the Figure 4.3 that the respondents (42%) were Indians followed by (30%) blacks, (16%) whites and (12%) coloured.

**Figure 4.4: Pie chart indicating employment type**



It is evident from the Figure 4.4 that the majority of respondents (80%) were permanent followed by (18%) contract and (2%) temporary.

**Figure 4.5: Area chart indicating qualification**



It is evident from the Figure 4.8 that 46% have diplomas followed by (26%) bachelor degrees, (14%) honours, (8%) masters and (6%) other.

## **SECTION B: IMPORTED SERVICES**

**Figure 4.6: Pie chart shows the main reason for using foreign suppliers**

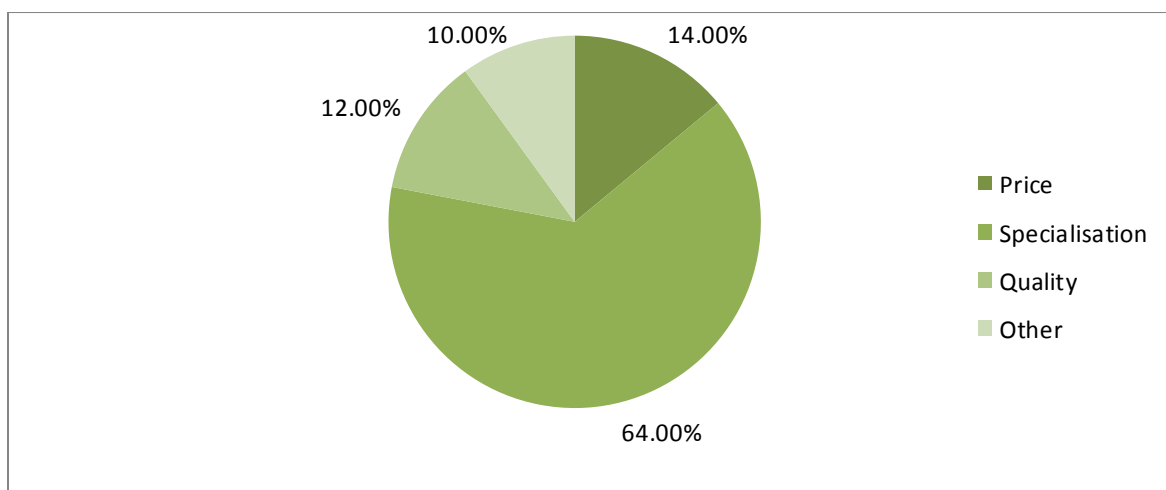


Figure 4.6 reflects that a majority of the foreign purchases (64%) are due to the specialized nature of the services, followed by price (14%), quality (12%) and other (10%).

Figures 4.11 to 4.15 are charts and questions that try to answer the research question of imposing VAT on imported and electronic services.

**Figure 4.7: Bar chart indicates if UKZN is purchasing more from local suppliers**

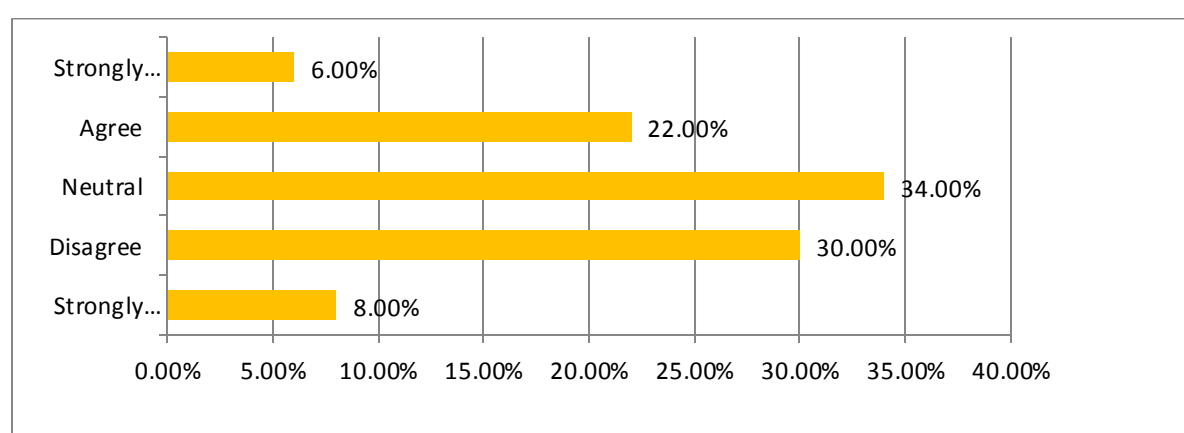


Figure 4.7 shows that by imposing VAT on foreign purchase 34% of respondents are neutral, followed by 30% that disagree, 22% agree, 8% strongly disagree and 6% strongly agree.

The 34% are uncertain whether the taxes imposed in terms of legislation has either discouraged them or encouraged them to use foreign suppliers.

Kababji (2016) states that to maintain a specific standard of living and sustaining the country's population is one of the most important purpose of government. However global wealth has been failed by governments, statistically. Governments have failed to redistribute the wealth and ensure the local markets are competitive. It is evident from the above figure that local purchases at UKZN have not increased materially.

**Figure 4.8: Bar chart shows the reluctance to use offshoring services**

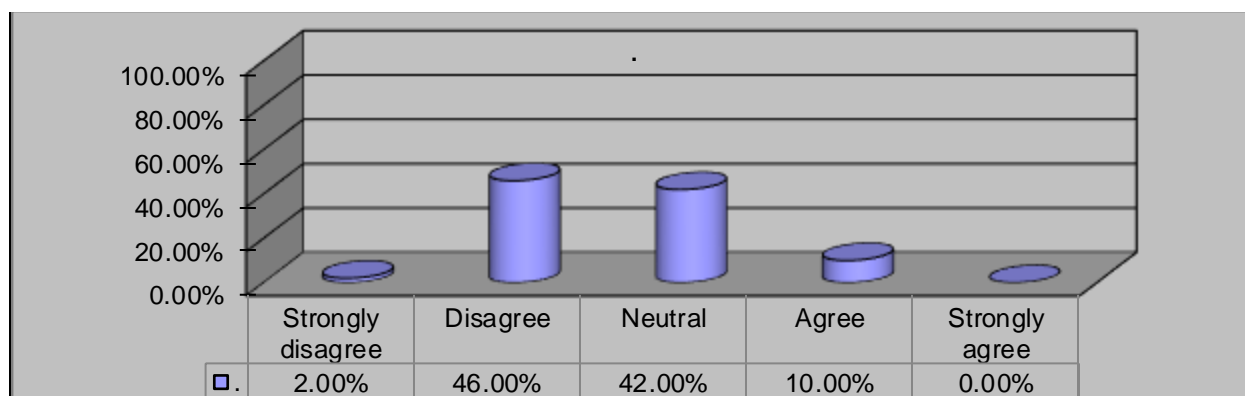


Figure 4.8 indicates that the respondents disagree (46%) that they will stop purchasing from foreign suppliers, due to the main reason of using overseas suppliers for their specialized services.

The 46% of participants have indicated they are not going to decrease their purchases from foreign suppliers.

**Figure 4.9: Bar chart indicates if the price of local services is competitive**

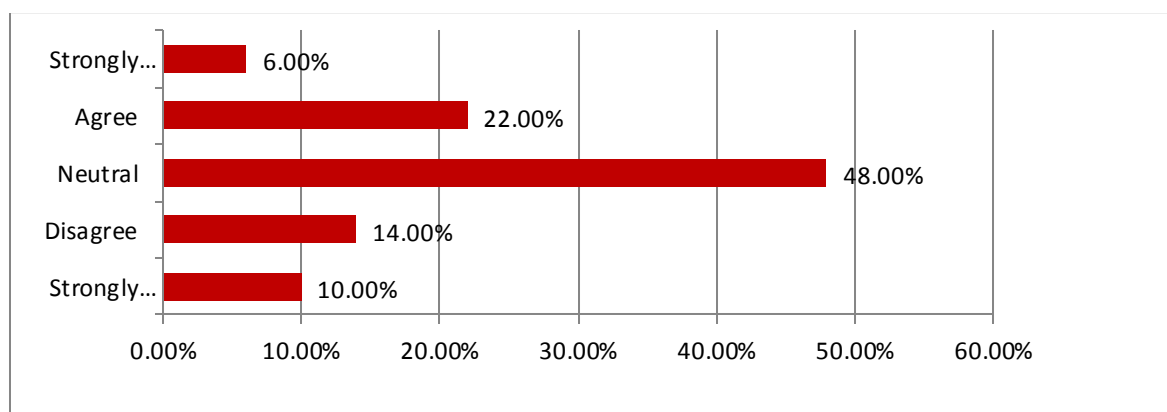


Table 4.9 shows that 48% of respondents are neutral and do not know if the VAT imposed on foreign purchases will make local services market related. The findings also indicated that 22% of the respondents agree that the local prices will be competitive followed by 14% of the respondents that disagree, 10% strongly disagree and 6% strongly agree.

The majority of people that completed the questionnaires are not convinced that the VAT imposed by legislation on foreign purchases, will make domestic prices competitive and equivalent with prices charged for overseas services.

**Figure 4.10: Bar chart shows if the increase in VAT can be afforded**

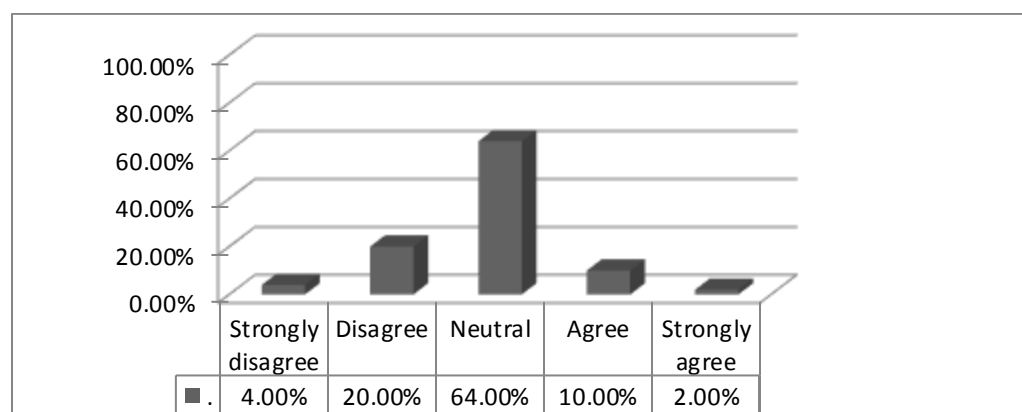


Table 4.10 shows that 64% of the respondents are neutral and unsure if they have enough funds to afford the increase VAT cost, 20% disagree, 10 % agree, 4% strongly disagree and 2% strongly agree.

During the 2015 year, schools and colleges were advised to cater for the increase in costs. Unfortunately the increase in costs could not be factored in the 2015 budget, but there was ample time to factor the cost in the 2016 budget.

Some challenges were faced when factoring the cost in the budget, is that it depends on the VAT status of the cost centre and the quantum of the services were only known when foreign suppliers are contacted for quotes. This could be a good reason for the participants being neutral. Also if the services are purchased locally, VAT will be charged if the domestic supplier is a VAT vendor. VAT therefore is an irrelevant cost because it does not affect the decision to purchase locally or abroad.

**Figure 4.11: Bar chart indicates if foreign purchases are substituted with local**

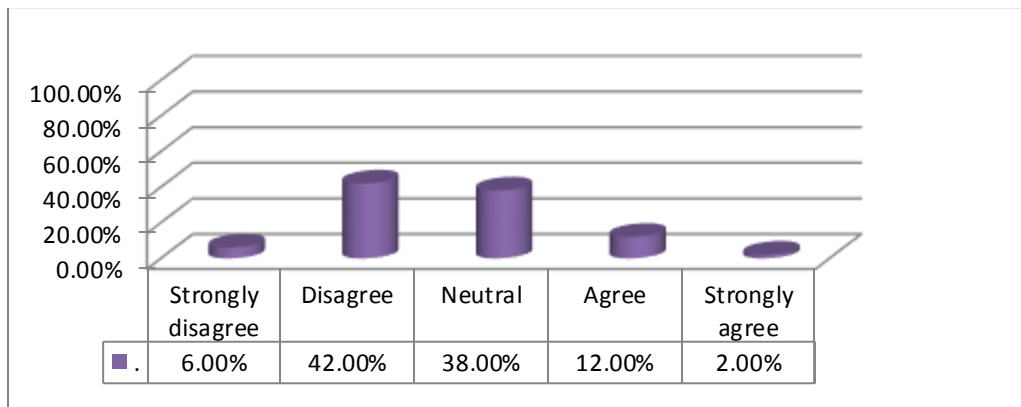


Figure 4.11 shows that 42% of the respondents disagree that they have substituted foreign purchases with local purchases followed by 38% are neutral, 12% agree, 6% strongly disagree and 2% strongly agree. The [48%] of the respondents made up of disagree [42%] and strongly disagree [6%] that that the new increase in costs have not resulted in local purchases increasing and foreign purchases decreasing.

The 48% of the participants are reluctant to substitute the foreign services for local services and this could be due to the main reason for using foreign suppliers.

## SECTION C: TYPES OF SUPPLIES

**Figure 4.12: Bar chart indicates if it is easy to determine an imported service**

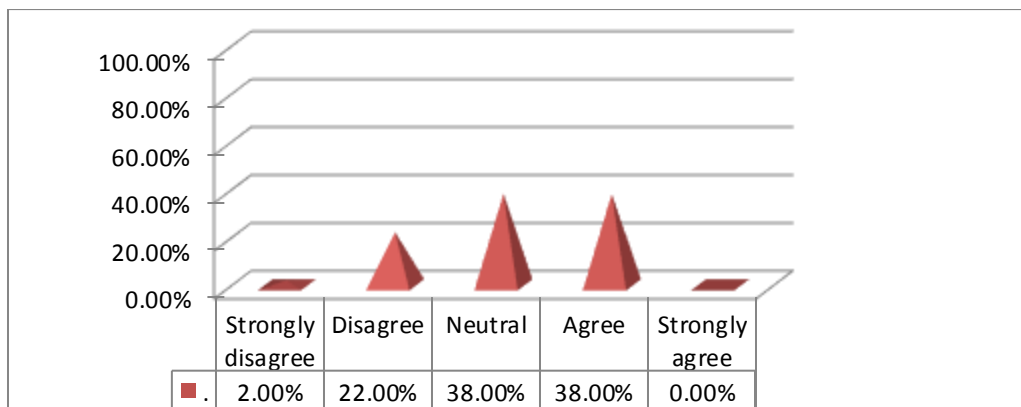


Figure 4.12 shows that 38% of the respondents are neutral and 38% agree followed by 22% that disagree, 2% strongly disagree and 0% strongly agree.

The next set of questions (Figure 4.13 to 4.20 and Table 4.5 to 4.7) will answer if staff find it easy to determine if the different type of supplies are imported services.

**Figure 4.13: Bar chart indicates determining overseas subscriptions**

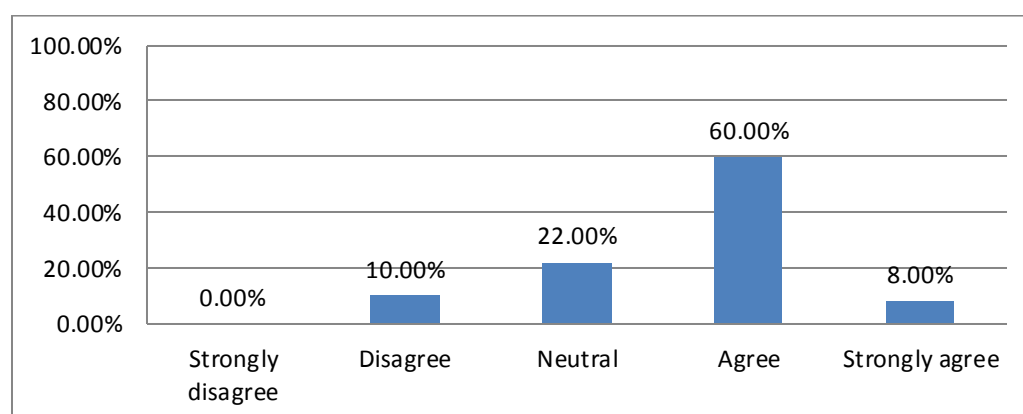


Figure 4.17 shows that the majority [60%] of the respondents agree followed by [22%] that are neutral, [10%] disagree, [8%] strongly agree and [0%] strongly disagree.

**Table 4.3: Frequency distribution indicates determining overseas publishing fees**

Answer	percentage(%)	Count(N)
Strongly disagree	8.00%	4
Disagree	16.00%	8
Neutral	28.00%	14
Agree	42.00%	21
Strongly agree	6.00%	3
Total	100.00%	50

Table 4.3 shows that [42%] of the respondents agree followed by [28%] that are neutral, [16%] disagree, [8%] strongly disagree and [6%] strongly agree.

**Figure 4.14: Bar chart indicates determining overseas conference fees**

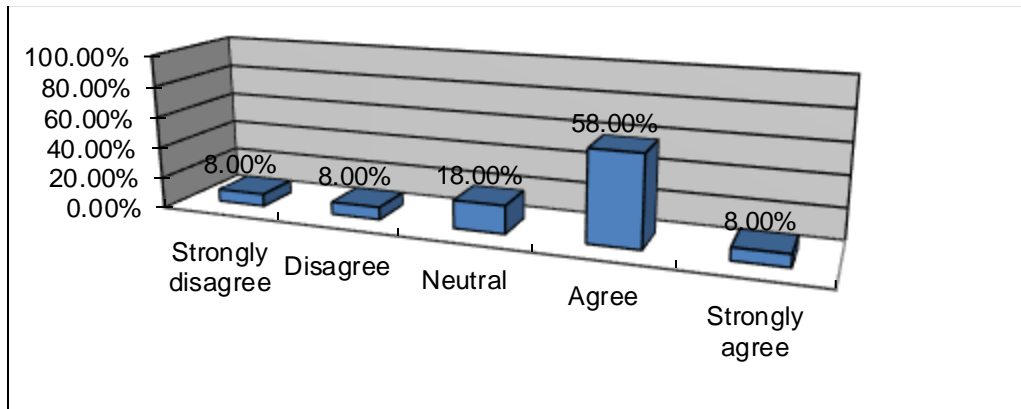


Figure 4.14 shows that the majority [58%] of the respondents agree followed by [18%] that are neutral, [8%] disagree, [8%] strongly agree and [8%] strongly disagree.

**Table 4.4: Frequency distribution indicates determining overseas seminars and training**

Answer	Percentage(%)	Count(N)
Strongly disagree	8.00%	4
Disagree	12.00%	6
Neutral	16.00%	8
Agree	56.00%	28
Strongly agree	8.00%	4
Total	100.00%	50

Table 4.4 shows that the majority [56%] of the respondents agree followed by [16%] that are neutral, [12%] disagree, [8%] strongly agree and [8%] strongly disagree.

**Figure 4.15: Bar chart indicates determining honorariums paid to foreigners**

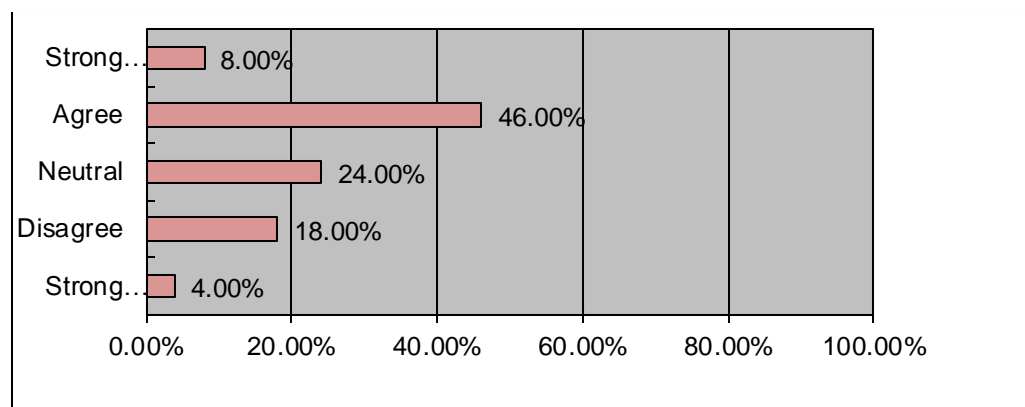


Figure 4.15 shows that [46%] of the respondents agree followed by [24%] that are neutral, [18%] disagree, [8%] strongly disagree and [4%] strongly agree.

**Table 4.5: Frequency distribution indicates determining foreign examiners fees**

Answer	Percentage(%)	Count(N)
Strongly disagree	4.08%	2
Disagree	6.12%	3
Neutral	30.61%	15
Agree	48.98%	24
Strongly agree	10.20%	5
Total	100.00%	49

Table 4.5 shows that [48.98%] of the respondents agree followed by [30.61%] that are neutral, [10.2%] strongly agree, [6.12%] disagree and [4.08%] strongly disagree.

**Figure 4.16: Bar chart indicates determining advertising in foreign media**

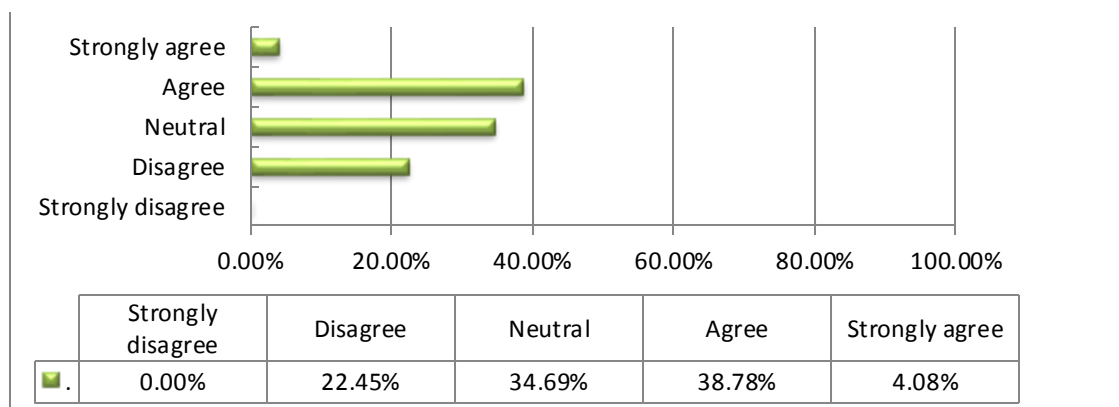


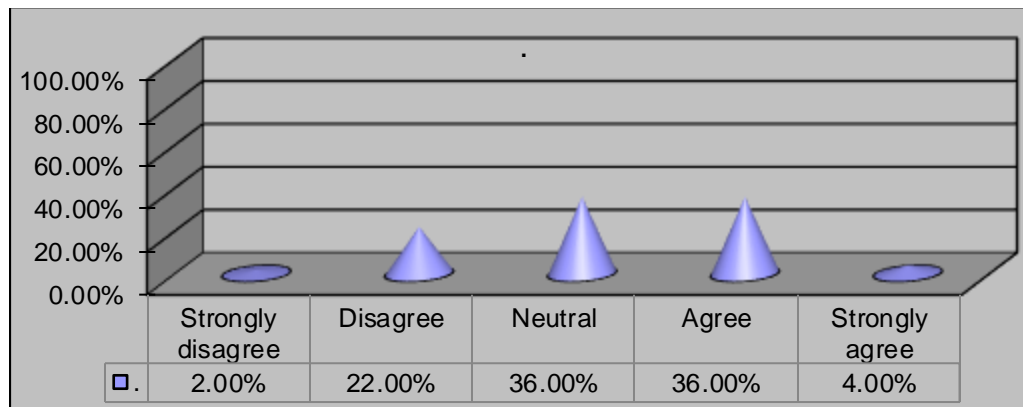
Figure 4.16 shows that [38.78%] of the respondents agree followed by [34.69%] that are neutral, [22.45%] disagree, [4.08%] strongly agree and [0%] strongly disagree.

**Table 4.6: Frequency distribution indicates determining hiring foreign suppliers technical equipment**

Answer	Percentage(%)	Count(N)
Strongly disagree	0.00%	0
Disagree	16.33%	8
Neutral	42.86%	21
Agree	34.69%	17
Strongly agree	6.12%	3
Total	100.00%	49

It is evident from the Table 4.6 that the respondents (42.86%) were neutral followed by (34.69%) agreed, (16.33%) disagreed, and (6.12%) strongly agree. This type of supply was an exception to the other supplies which means that the participants are not certain whether it is an imported service or not.

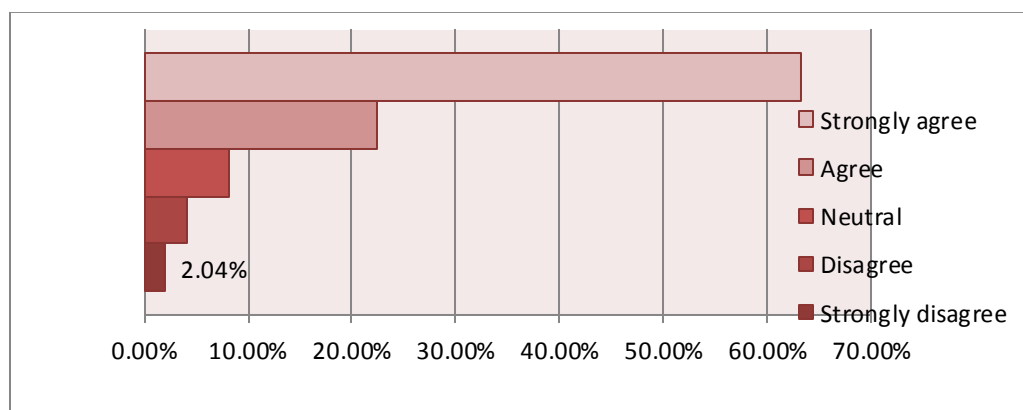
**Figure 4.17: Bar chart indicates determining digital logos and development**



It is evident from the Figure 4.17 that the respondents (36%) were neutral and agreed followed by (22%) disagree, (4%) strongly agree, and (2%) strongly disagree. There is a majority of equal number of participants that are certain and uncertain whether the supply is an imported service or not.

The majority of the respondents agreed with three of the nine different types of foreign payments identified. Most of the participants are not comfortable with identifying whether a supply is an imported service.

**Figure 4.18: Bar chart indicates are more guidelines needed**



It is evident from the Figure 4.18 that the majority of respondents (63.37%) strongly agree and (22.45%) agree. The majority of the participants have not agreed that they are comfortable in determining whether a supply is an imported service. Therefore

there is an overwhelming majority strongly agree and agree that there should be more guidelines to identify the different types of supplies.

The next eight questions respond to the internal and external compliance.

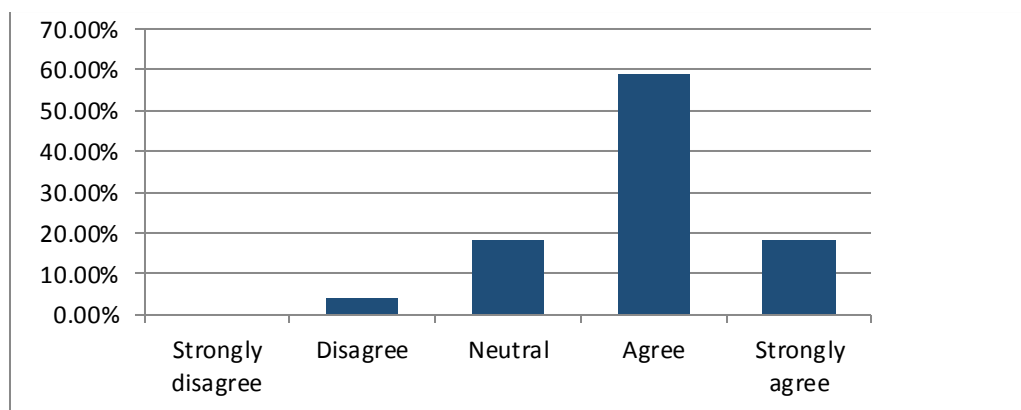
## **SECTION D: COMPLIANCE**

**Table 4.7: Frequency distribution indicates determining internal compliance prior to 2015**

Answer	Percentage(%)	Count(N)
Strongly disagree	0.00%	0
Disagree	4.08%	2
Neutral	12.24%	6
Agree	53.06%	26
Strongly agree	30.61%	15
Total	100.00%	49

It is evident from the Table Figure 4.7 that the majority of respondents (53.06%) agree and (30.61%) strongly agree. The majority of the respondents are fully aware that very little was known about VAT on imported services prior to the 2015 year, only subsequently staff were informed on the VAT on imported and electronic services. Assisting with 2015 VDP to SARS, presentations on the subject matter, word of mouth, tax advice and procedures in place to ensure foreign payments are subject to VAT if applicable, are some of the ways people became aware of imported services at UKZN.

**Figure 4.19: Bar chart indicates if foreign currency tax invoices are preferred**



It is evident from the Figure 4.19 that the majority of the respondents (59.18%) agree followed by (18.37%) neutral, (18.37%) strongly agree, (4.08%) disagree and (0%) strongly disagree.

**Table 4.8: Frequency distribution indicates preference for hedging against the rand**

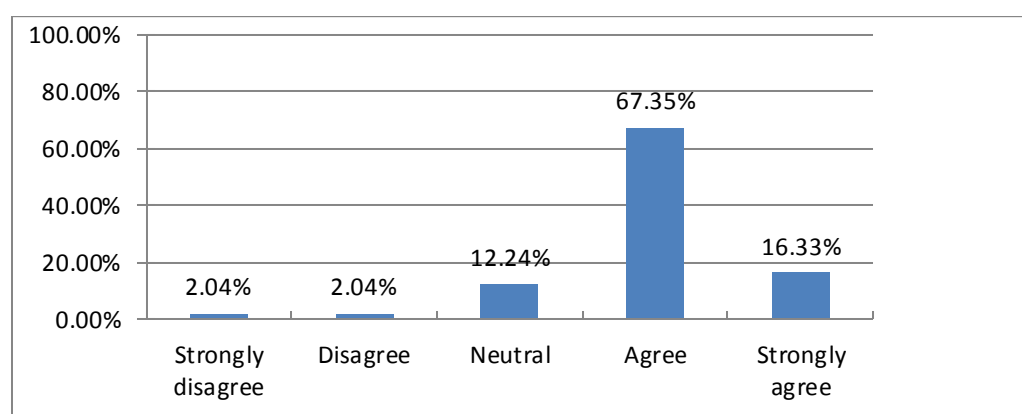
Answer	Percentage(%)	Count(N)
Strongly disagree	0.00%	0
Disagree	6.12%	3
Neutral	30.61%	15
Agree	46.94%	23
Strongly agree	16.33%	8
Total	100.00%	49

It is evident from Table 4.8 majority of the participants agree (46.94%).

As per Figure 4.19, most of the participants prefer for the foreign invoices to be in the foreign currency and the underlying reason for this is to hedge against the weaker South African Rand. One of three ways to hedge against depreciating rand, is to hold the foreign currency. Most of the SA banks offer a foreign currency account facility and when the rand depreciates the foreign currency will strengthen (Brownlee, 2015). Hedging against the domestic currency curbs foreign exchange losses.

VAT legislation state that the tax invoice shall be in the currency of the Republic, if VAT input is claimed. Therefore legislation contradicts what the majority of participants in UKZN prefer with respect to claiming the input VAT. If tax invoices are stated in a foreign currency, it is at SARS discretion to accept or reject the VAT claimed.

**Figure 4.20: Bar chart indicates if the VAT implications are considered**



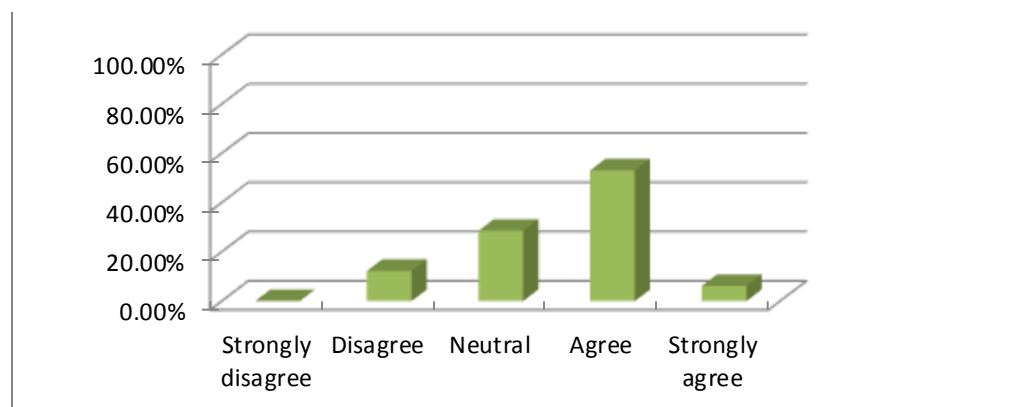
It is evident from the bar chart that the majority of the respondents (67.35%) agree.

**Table 4.9: Frequency distribution chart indicates internal controls in place**

Answer	Percentage(%)	Count(N)
Strongly disagree	2.04%	1
Disagree	6.12%	3
Neutral	36.73%	18
Agree	51.02%	25
Strongly agree	4.08%	2
Total	100.00%	49

Table 4.9 shows that majority of the respondents (51.02) agree that VAT on imported and electronic services are taken into account when dealing with foreign payments. This lowers the risk that output VAT is not declared on imported services.

**Figure 4.21: Bar chart shows understanding when VAT is triggered**



It is evident from the Figure 4.21 that the majority of respondents (53.06%) agree followed by (28.57%) neutral, (12.24%) disagree, (6.12%) strongly agree and (0%) strongly disagree.

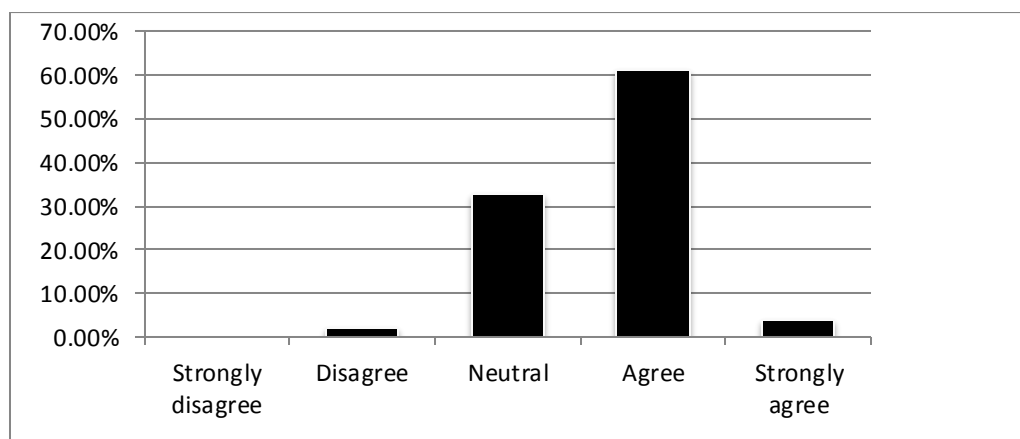
This indicates that the majority understand when output VAT should be declared on a foreign payment.

**Table 4.10: Frequency distribution indicates the understanding of apportionment**

Answer	Percentage(%)	Count(N)
Strongly disagree	0.00%	0
Disagree	14.29%	7
Neutral	24.49%	12
Agree	53.06%	26
Strongly agree	8.16%	4
Total	100.00%	49

Table 4.10 state that the majority of participants (53.06%) agree followed by (24.49%) that are neutral. Based on the advice given and the controls in place and most of the participants are comfortable and know when output VAT should be apportioned.

**Figure 4.22: Bar chart indicates if foreign suppliers are VAT compliant**



It is evident from the Figure 4.22 that the majority of respondents (61.22%) agree followed by (32.65%) neutral, (4.08%) strongly agree, (2.04%) disagree and (0%) strongly disagree. Based on the above chart most of the participants are satisfied that the foreign suppliers are complaint with the VAT legislation with respect to sales in South Africa.

### 4.3 Summary

The Cronbach's coefficient alpha was used to measure the reliability of the data collected and the data was found to be reliable and valid. The results of the questionnaire indicates that the main reason for using foreign suppliers is their specialized services. Empirical evidence supports an increase in productivity and effectiveness when offshoring services are used. Majority of the participants are not satisfied that they can identify when a foreign payment or purchase is an imported service. Therefore most of the respondents also agree that they need more guidance to ascertain an imported service. Most of the respondents stated that they prefer the foreign suppliers invoice to be in a foreign currency and agree that internal and external compliance with respect to VAT on imported and electronic services, are in place

## **CHAPTER FIVE**

### **Recommendations and Conclusions**

#### **5.1 Introduction**

Chapter 4 is the presentation of data and results statistically descriptive. In this chapter the primary and literature study findings are presented and discussed. This is the concluding chapter that try to associate the findings to the research questions.

#### **5.2 Has the data answered the research question?**

The three research questions have been answered. The conclusions were drawn from the primary data of the quantitative analyses (Chapter 4) based on the research questions and supported by the literature review framework as per Chapter 2.

Objective: To establish the underlying reason for using offshore service suppliers. From the analysis of the findings majority of the respondents stated that specialization of the services provided by the offshore suppliers

Objective: To determine if government will be successful in eliminating the competitive disadvantage faced by domestic suppliers.

From the analysis of the findings one could not conclude that there was a majority favouring an outcome of this objective.

Objective: To establish UKZN's working knowledge in the subject matter studied. From the analysis of the findings the response received indicate that it cannot be conclusive as the respondents were indecisive hence one cannot conclude on this objective.

Objective: To determine if additional theoretical guidance is necessary.

From the analysis of the findings the majority of the respondents strongly agreed that more guidance is needed.

Objective: To establish the adequacy of internal and external controls.

From the analysis of the findings the majority of the respondents agree that there are internal and external controls in place at UKZN.

### **5.3 Benefits of this Research**

The primary study has identified that the main reason for using foreign suppliers is due to the specialized services offered. Government is unlikely to level the playing fields and force the domestic recipients to purchase from local suppliers. The South African government's intention is to follow international practice and protect its local market but it would appear that the expertise of the offshoring service is the reason, it is not possible. UKZN is reliant on specialized services because it is committed to excellence in education and research, high standards must be maintained especially with respect to these areas where the services are needed. If the services are not found domestically UKZN has to source foreign service providers. UKZN cannot compromise on quality and the level of service received.

Although VAT is an additional cost for foreign services, domestic purchases will also charge VAT.

The respondents that took part in the research are were indecisive if they were able identify when a foreign payment made is an imported service and the majority of respondents still need more guidance to assist them in determining what an imported service is. There is a sense of confidence amongst the people working with imported services and people understand how to deal with imported services.

Most of the respondents agree that prior to 2015 compliance was low but subsequently also agree that the internal compliance at UKZN and external compliance by the foreign suppliers are adhered to by the respective parties. This indicates they

understand what they are doing and know when to take action and rectify deviations from the internal controls put in place and notify the foreigners as well.

#### Benefits of various Stakeholders

Governments will understand from a university perspective specialization is the main reason for using foreign suppliers and changing this practice and using domestic suppliers from a university's perspective will be a difficult task.

UKZN can be satisfied that it has no choice but to use offshore service providers if the areas of expertise are not located in South Africa. Service offshoring also results in an increase in productivity and effectiveness. Management at UKZN can be assured that their staff working with imported and electronic services are confident in doing their work properly.

Domestic suppliers can be satisfied that legislation is complied with and they are not in a disadvantageous position. Foreign suppliers can be reasonably assured that UKZN is compliant with the tax authorities and will correct them, should they not be compliant. This creates a peace of mind for the both the contracting parties (foreign supplier and UKZN).

#### **5.4 Recommendations to solve the business problem**

The results of the questionnaire prove that the main reason for using offshoring services is specialization and by ensuring VAT is levied on imported and electronic services, UKZN has not increased their domestic purchases or decrease their foreign purchases. It was also noted from the research undertaken that foreign purchases were not substituted for local purchases. Trying to level the playing fields is difficult from government's perspective when specialization is the core reason for not supporting the domestic market. Government has ensured that VAT on offshoring services is declared on the greater of the consideration for the supply or the open market value of the South African supply. It is therefore recommended that if the services are so specialized that no domestic substitute is available, it would be reasonable to use foreign suppliers, VAT would be levied on the amount invoiced. But if there is a South African market for the service needed, it would be better to support the domestic market. By using local service providers would mean purchasing less

foreign currency and strengthening the local currency which could be beneficial for the South African economy.

Due to the high staff turnover rate in UKZN, and people that exit the organization take their knowledge with them and don't transfer it to people that remain to do the work. Some of the people may feel too scared to ask for advice. It is recommended that regular advice is given to assist people to do their work. Presentations and education will also help staff to understand the theory of this specialized area of taxation.

Taxpayers prefer to transact with other taxpayers that are compliant with the respective tax laws. Foreign taxpayers should be advised of the VAT requirements of South African legislation in order to transact, failing which UKZN should not transact or must charge VAT on an electronic transaction that was not charged by the foreign supplier. The cost of this recommendation is not a factor because in terms of the VAT Act, the VAT must be declared by the foreign supplier and if they don't charge the VAT, the responsibility falls on the recipient (UKZN).

## **5.5 Limitations of this study**

### Sample Size

VAT on imported services has only been implemented at UKZN towards the end of the 2015 year. Due to the specialized area of this research and the limited number of people working with VAT on imported and electronic services, the population was small and the sample size was equally small but high in relation to the population. But it was noted that the number of people working in this specialized area had increased during the research period. Due to the fact that the implementation of VAT on imported services was still in its infancy stage, the population size of potential participants grew subsequent to the research conducted.

### Sampling Technique

The population was low and a high sample was needed, probability sampling could not be used.

### Identifying and Targeting Respondents

It was difficult to identify some of the potential participants because of delegation of duties and it was therefore difficult to identify some the potential respondents.

### Administering of the Questionnaire

To achieve a high sample the response rate had to very good and at times it is difficult to persuade potential respondents to complete the questionnaire. Some of the potential participants felt by completing the questionnaire and putting their names on the consent forms, could result in a critical review of their knowledge or work.

### The process of obtaining primary data

The quantitative approach was a good way of obtaining the primary data but its disadvantage is it lacked a more descriptive element of the data collected.

### Time as a limitation

Respondents promise to complete the questionnaire on time but didn't stick to the timelines given.

## **5.6 Recommendations to overcome the limitations**

### Sample Size

After a year or more of the implementation, the population size would have increased and it would be a good time to do further research and compare results with this dissertation.

### Sampling Technique

When the population has increased, the researcher will still not be able to use probability sampling techniques due to the fact that not everyone deals with imported services in the workplace. An alternative when probability sampling cannot be used is to an audience that attends a VAT seminar or presentation at UKZN.

### Identifying and Targeting Respondents

Due to high staff turnover and delegation of duties, snowballing techniques will still be applicable in the case of non- probability technique.

### Administering of the Questionnaire

As UKZN is a research led university, there should be seminars and presentations informing staff and students to participate in research and the benefits in participating. It should be made very clear to the potential respondents that their participation in the questionnaire is voluntary. They may refuse to participate or withdraw from the project at any time with no negative consequence. But confidentiality and anonymity of records identifying them as a participant will be maintained by UKZN. The information gathered from the questionnaire will only be used for research purposes.

#### ☐ The process of obtaining primary data

A hybrid approach would have been a more effective way of gathering information, questionnaires and interviews. A qualitative method gathers more theoretical information on the primary data and group structured interviews would capture the experiences of the interviewees in a descriptive way.

The current research concentrated on a homogenous population and sample from the same organization. A better source of primary data would be gathered from a heterogeneous sample which could comprise a number of different exempt organizations.

There are a number of focus areas that this study was unable to examine. However, future studies could consider the following topics that arise from this study:

- The VAT implications on imported services from other tertiary institutions perspective.
- The VAT implications of foreign suppliers.
- An evaluation of VAT on foreign payments from SARS perspective.

## **5.7 Summary**

A quantitative data approach was used to obtain primary data which was further analysed using descriptive statistics. The data collected was summarized for the samples and using figures and tables answered the three research questions.

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# PERMISSION TO CONDUCT RESEARCH



26 April 2016

Mr Sugandran Naidoo  
Graduate School of Business and Leadership  
College of Law and Management Studies  
Westville Campus  
UKZN  
Email: [Naidoo3@ukzn.ac.za](mailto:Naidoo3@ukzn.ac.za)

Dear Mr Naidoo

## RE: PERMISSION TO CONDUCT RESEARCH

Gatekeeper's permission is hereby granted for you to conduct research at the University of KwaZulu-Natal (UKZN) towards your postgraduate studies, provided Ethical clearance has been obtained. We note the title of your research project is:

*"The evaluation of VAT implications on imported and electronic services at UKZN".*

It is noted that you will be constituting your sample by handing out questionnaires to staff at UKZN.

Please ensure that the following appears on your notice/questionnaire:

- Ethical clearance number;
- Research title and details of the research, the researcher and the supervisor;
- Consent form is attached to the notice/questionnaire and to be signed by user before he/she fills in questionnaire;
- gatekeepers approval by the Registrar.

You are not authorized to contact staff and students using 'Microsoft Outlook' address book.

Data collected must be treated with due confidentiality and anonymity.

Yours sincerely

  
**MR SS MOKOENA**  
**REGISTRAR**

---

### Office of the Registrar

Postal Address: Private Bag X54001, Durban, South Africa

Telephone: +27 (0) 31 260 8005/2206 Facsimile: +27 (0) 31 260 7824/2204 Email: [registrar@ukzn.ac.za](mailto:registrar@ukzn.ac.za)

Website: [www.ukzn.ac.za](http://www.ukzn.ac.za)



Edgewood Howard College Medical School Pietermaritzburg Westville

# QUESTIONNAIRE

Questionnaire - Protocol reference number:HSS/0489/016M

Pg1 of 3

The evaluation of VAT implications on imported and electronic services at UKZN

## Section A: Demographic Information

1. Gender:

Male	Female

2. Age:

Less than 20 years	Between 20 and 29	Between 30-39	Between 40-49 years	Between 50-59 years	60 years and older

3. Number of years of service:

< 5 years	6-10 years	11-15 years	16-20 years	Greater than 20 years

4. Current position:

Academic	Other	Accountant	Manager	Director

5. Employer:

UKZN	Other

6. Race:

African	Coloured	Indian	White

7. Employment type:

Permanent	Temporary	Part time	Contract

8. My highest qualification is:

Other	Diploma	Bachelors Degree	Honours	Masters	Phd

### Section B: Imported Services

9	I work with imported services	Yes	No

Please complete the following:

10	What is the main reason for purchasing from foreign suppliers	Price	Speacialization	Quality	Other

	By imposing VAT on imported/ electronic services:	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
11	You are purchasing more from local suppliers					
12	You are reluctant to purchase from foreign suppliers					
13	The price of the local services will be competitive					
14	Can you afford the increase in costs (14% VAT )					
15	You have substituted foreign purchases with local purchases					

### Section C- Different types of supplies

Please mark whether you strongly agree/agree/strongly disagree/disagree or are neutral on the statement below.

		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
16	It is easy to determine if the foreign payment is an imported service					
	<b>Kindly indicate if you strongly agree/agree/ neutral or strongly disagree/ disagree at the ease of determining whether the following supplies are an imported services</b>					
17	Overseas Subscriptions paid for individuals/UKZN					
18	Fees paid for publishing in an international journal					
	Fees paid for digital logos and website development					
19	Overseas Conference fees					
20	Overseas Seminars and training courses					
21	Honourariums paid to foreigners					
22	Foreign External examiners fees					
23	Advertsing in foreign media					
24	Hiring of techical equipment from overseas companies					
25	Do you think we need more guidelines on how to identify an imported service wrt the different types of supplies					
26						

### Section D- Compliance

Please mark whether you agree/disagree or are neutral on the statement below.

		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
27	Prior to 2015, compliance of declaring VAT on imported services was low.					
28	It is preferable for foreign suppliers invoice to be in their respective foreign currency					
29	The main reason for agreeing to the above point is hedging against the local currency					

		Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
30	Is each foreign payment made, carefully examined for imported /electronic services implications					
31	Do you fully understand when VAT is triggered on imported /electronic services					
32	Are there internal controls in place to ensure the VAT on imported /electronic services are accounted for					
33	Do you understand why output Vat is apportioned					
34	Foreign suppliers of electronic services are registered for VAT or use agents that are VAT vendors					

# ETHICAL CLEARANCE APPROVAL LETTER



05 May 2016

Mr Sugandran Naidoo (9036673)  
Graduate School of Business & Leadership  
Westville Campus

Dear Mr Naidoo,

Protocol reference number: HSS/0489/016M

Project title: The evaluation of VAT implications on imported and electronic services at UKZN

## Full Approval – Expedited Approval

With regards to your application received on 29 April 2016. The documents submitted have been accepted by the Humanities & Social Sciences Research Ethics Committee and **FULL APPROVAL** for the protocol has been granted.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

Please note: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully



Dr Shamila Naidoo (Deputy Chair)

/ms

Cc Supervisor: Dr Abdul Kader  
Cc Academic Leader Research: Dr Muhammad Hoque  
Cc School Administrator: Ms Zarina Bullyraj

Humanities & Social Sciences Research Ethics Committee

Dr Shenuka Singh (Chair)




Westville Campus, Govan Mbeki Building

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Founding Campuses:  Edgewood  Howard College  Medical School  Pietermaritzburg  Westville

# TURNITIN REPORT

Turnitin

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Originality Report

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CHAPTER ONE Introduction 1.1 Introduction The Higher Education South Africa (HESA) stated that in 2015, guidance will be provided to public universities for compliance with the Value Added Tax (VAT) provisions on imported service of the VAT Act (HESA, 2015). This chapter will focus on the problem statement which emanates from the workplace. There is enthusiasm for the distinctive contribution this study will make towards universities. The research question will be based on the problem statement and the research undertaken will identify the outcomes of the study. A proposed methodology will be used to gather primary data on the research. The data will be analysed to support or refute the research questions and hence answer the problem statement. 1.2 Problem Statement VAT on imported services has always been in the provisions of the Vat Act but due to its misunderstanding and complexity, compliance was low. Up until 1 June 2014 when government compelled non-resident suppliers to charge VAT of e - commerce sales in the Republic (National Treasury, 2014). The change in legislation has changed the way in which organizations were previously treating VAT on imported and electronic services. There are three research questions that needs to be answered in this study: ? What is the main reason for using foreign suppliers and has government levelled the playing fields with the new legislation. ? To determine if imported services can be identified and are more guidelines needed on imported services at UKZN. ? Is there internal and external compliance at UKZN 1.3 Motivation for the Study The motivation will try to answer the reason why is UKZN using offshoring service suppliers and can they change and use domestic suppliers because it is not beneficial for them to use foreign suppliers. The research will also prove that in terms of a university's (UKZN)

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