

## **TAX REVIEW**

### **1. BACKGROUND AND OVERVIEW**

#### **1.1 Purpose**

Central Energy Fund (CEF) SOC Ltd seeks the services of suitably qualified tax professional with extensive experience within the energy sector on the review and offer advice on the following tax matters:

#### **VAT:**

1. Review of the current CEF SARS Ruling for the alternative method of claiming Input VAT and the implementation thereon by CEF,
2. Assist with the renewal and application of the SARS VAT ruling on behalf of CEF using the varied turnover-based method for the purposes of determining the extent to which VAT may be deducted as input tax on the mixed expenses.
3. Advise on iGas (a small subsidiary of CEF) VAT input claims and assist with the application of a SARS ruling on input VAT (if applicable)
4. Review of the VAT on the Solar Water Heater project
5. Review of a few monthly VAT Calculations for both CEF and iGas (already prepared and submitted).
6. Advise CEF regarding the following:
  - VAT on importation of services (for both vendors and non-vendors)
  - VAT implications for Grants received.
  - VAT consequences of Principal/agent scenarios and the implications thereof at CEF
  - VAT Implications on projects that iGas/CCE/ETA carries out on behalf of DMRE.
  - VAT Implications of possible donations of subsidiary assets.
  - VAT principles for group company transactions, including but not limited to intragroup loans.
  - Consequences of the new merger as well as projects that have been approved.

## Income

- Review of both the iGas and CEF income tax calculations and advise on improvements/corrections where necessary.

### 1.2 Background

Central Energy Fund (CEF) SOC Ltd is a State-Owned Company, incorporated in terms of the Companies Act and is governed by the CEF Act No. 38 of 1977. The purpose of the CEF Group is to give effect to the objectives of the CEF SOC Ltd which are primarily that moneys paid under the fund shall be utilised in accordance with directions of the Minister of the Department of Mineral Resources and Energy for the financing and promotion of:

- The acquisition of coal, the exploitation of coal deposits, the manufacture of liquid fuel, oil and other products from coal, the marketing of the said products and any matter connected with the said acquisition, exploitation, manufacture, and marketing.
- The acquisition, generation, manufacture, marketing, or distribution of any other forms of energy and research connected therewith.
- Any other object for which the fund may be applied, and which has been designated or approved by the said Minister with the concurrence of the Minister of Finance

1.2.1 Some of the notable subsidiaries within the group are as follows:

- The Petroleum Oil and Gas Corporation of South Africa (**PetroSA**) Group of Companies
- Strategic Fuel Fund (SFF)
- African Exploration Mining and Finance Corporation SOC Ltd
- South African Agency for Promotion of Petroleum Exploration SOC Ltd
- South African Gas Development Company SOC Ltd (iGas)
- ETA Energy SOC Ltd

- CCE Solutions (Pty) Ltd

1.2.2 CEF SOC Ltd is the holding company for several subsidiaries, which constitute the CEF Group of companies. CEF SOC Ltd's focus is to provide an oversight role as a holding company as well as to provide strategic direction and guidance.

1.2.3 CEF SOC Ltd main sources of income are:

- Interest income from money market investments
- Management fees
- Interest income on loans to group companies
- Rental income
- Dividends from group companies (Associates, Joint Ventures) (SPVs)
- Recoveries from subsidiaries (not profit making) for expenses incurred on their behalf.

### **1.3 Roles/duties of the tax specialist**

The tax specialist shall provide the following tax review reports:

- For CCE Solutions, a report on VAT consequences which may arise on the sale/donation of assets.
- A report advising on income tax and VAT implications on funding provided to government-related projects as per Ministerial directives issued.
- A report identifying the issues with the current application of the VAT Act on operations of CEF and making recommendations on how CEF can be aligned/in compliance with the VAT Act.
- Provide advice on most efficient tax position relating to VAT and assist with renewing the SARS VAT ruling relating to input tax claims.
- Based on the outcome of the tax reviews, the tax specialist shall liaise with SARS on resolving the tax issues identified and implementation of the recommendations suggested.

- The importation of professional services by CEF for the use of entities within the group
- Tax consequences on group company transactions including but not limited to the granting of loans, cash pooling activities, management fees and secondment of employees.
- Provide recommendation on all possible tax consequences relating to the planned merger transaction, for each separate legal entity as well as the proposed consolidated entity

#### **1.4 Key requirements of the tax specialist**

- The tax specialist must have extensive experience on income tax and VAT reviews in the Energy industry.
  - The tax specialist must have provided similar tax advice to State Owned Companies (SOCs)
  - The tax specialist must have experience on Companies Act related projects/reviews.
  - The tax specialist must have previous experience of dealing/interacting with SARS on Voluntary Disclosure Programme (VDP's)
  - The Partner/Director must be a qualified CA (SA) with Masters in tax/ Dip tax with more than 5 years' experience on income tax reviews, Companies Act reviews and VAT Act reviews.
  - The Team Manager/Senior Manager must be a qualified CA (SA) with more than 5 years' experience on income tax reviews, Companies Act reviews and VAT Act reviews.
  - The team must have a BCom Accounting degree or BCom Taxation degree and previous experience on similar projects.
  - The Curriculum Vitae of the Partner/Director, Manager and team must be in detail to show experience on similar projects detailed above on bullet 1 to 4.
  - The price for the engagement must be fixed and firm.
  - Any reimbursable expenses that the tax specialist plans to incur must be pre-approved by CEF.

#### **1.4 CEF Duties**

- CEF shall provide all the financial records and understanding needed.
- CEF shall provide SARS contacts/relationship manager contact details

## **SCOPE OF WORK**

### **2.1 VAT**

CEF is a registered VAT vendor in terms of the VAT Act. The company claims input VAT on capital goods/services and expenses in terms of the VAT Act.

As stated above the company's main source of income is:

- Rental income
- Interest income
- Management fees
- Dividends received.

The company charges output VAT on rental income and management fees. No VAT is charged on interest income as it is defined as financial service in terms of the VAT Act as well as dividend income as it is not a supply of goods or services therefore does not meet the requirements of s7(1)(a) of the VAT Act.

The tax specialist must identify issues with the current VAT structure and make recommendations on how CEF can structure VAT and still be aligned/in compliance with the VAT Act. The tax specialist must advise on the efficient VAT position for the Holding company specifically given the:

- Acting as an agent on behalf of the DoE by funding, through the Ministerial directives, the projects for subsidiary companies.
- Receiving funds in a form of a grant or re-capitalisation of the Holding company by the shareholder for a Vat vendor or non-VAT vendor group company

### **2.2 Time for completion of work**

The tax expert should commit to completing the work within four weeks, after signing the appointment letter.

### **2.3 Tender evaluation procedures**

The proposals will be evaluated in four (4) phases:

## Phase 1

### Administrative evaluation criteria

Initial screening process: At this phase bidders' responses are reviewed to check if bidders have responded according to CEF SOC Ltd document.

## Phase 2

### Mandatory requirements

At this phase bidders must submit the required supporting documents to substantiate compliance to the following requirement. It must be noted that if the Bidder does not meet any of the requirements, the bidder will be disqualified and not be evaluated further.

Mandatory requirements	Comply	Not Comply
1. The Partner/Director must have a: <ul style="list-style-type: none"> <li>○ Professional qualification (admitted attorney/Chartered Accountant); and/or</li> <li>○ Masters in tax or High diploma in Tax and</li> <li>○ SALT membership</li> </ul>		
2. The Team Manager/Senior Manager must be a qualified CA (SA) or admitted attorney.		
3. The Team members must have <ul style="list-style-type: none"> <li>• An LLB qualification or BCom Honours Accounting degree or relevant Taxation qualification; and</li> <li>• Energy or mining development tax experience.</li> </ul>		

### Phase 3

#### Technical evaluation

Bidders will be evaluated according to the below technical evaluation criteria. Minimum Technical Threshold is **80%**. It must be noted that if the Bidder does not meet the **80%** minimum threshold, the bidder will be disqualified and not be evaluated further.

EXPERIENCE OF THE PARTNER/DIRECTOR			
<b>2.4.2 PARTNER's/DIRECTOR's EXPERIENCE IN VAT ON ENERGY PLANT COMPONENTS</b> <ul style="list-style-type: none"> <li>The PARTNER/DIRECTOR has experience on VAT matters concerning Energy Plant components and has done it in 5 or more different clients.</li> <li>The PARTNER/DIRECTOR has experience on VAT matters concerning Energy Plant components and has done it 3 but less than 5 different clients.</li> <li>The PARTNER/DIRECTOR has experience on VAT matters concerning Energy Plant components and has done it in less than 3 different clients.</li> <li>The PARTNER/DIRECTOR has not conducted reviews on VAT matters concerning Energy Plant components.</li> </ul>	CVs of the Partner clearly listing the name of clients and work done		15%
		5	
		3	
		1	
		0	



EXPERIENCE OF THE TEAM MANAGER / SENIOR MANAGER						
<b>2.4.3 SENIOR MANAGER'S KNOWLEDGE/EXPERIENCE IN THE ENERGY -</b> <ul style="list-style-type: none"><li>The Manager has conducted Income tax structuring / modelling of an Energy company in a group structure and has done it in 5 or more different clients.</li><li>The Manager has conducted Income tax structuring / modelling of an Energy company in a group structure and has done it in 3 but less than 5 different clients.</li><li>Manager has conducted Income tax structuring / modelling of an Energy company in a group structure and has done it in less than 3 different clients.</li><li>The Manager has NOT conducted income tax structuring for Energy companies.</li></ul>	CV of the Team Manager/Senior Manager clearly listing the name of clients and work done	5	3	1	0	15%
<b>2.4.4 SENIOR MANAGER'S KNOWLEDGE/EXPERIENCE IN VAT ON ENERGY PLANT COMPONENTS</b> <ul style="list-style-type: none"><li>The Manager has Experience on VAT matters concerning Energy Plant components and has done it in 5 or more different clients.</li><li>The Manager has Experience on VAT matters concerning Energy Plant components and has done it in 3 but less than 5 different clients.</li><li>The Manager has Experience on VAT matters concerning Energy Plant components and has done it in less than 3 different clients.</li><li>The Manager has not conducted reviews on VAT matters concerning Energy Plant components</li></ul>	CV of the Team Manager/Senior Manager clearly listing the name of clients and work done	5	3	1	0	10%

SKILLS TRANSFER PLAN			
<b>2.4.5 FIRM's Skills transfer plan</b> <ul style="list-style-type: none"> <li>The bidder has skills transfer plan to CEF SOC Ltd team members that is "SMART" *</li> <li>The bidder has skills transfer plan to CEF SOC Ltd team members that is "SMART".</li> <li>The bidder has skills transfer plan to CEF SOC Ltd team members that is not "SMART".</li> <li>The bidder has no skills transfer plan.</li> </ul>	Skill Transfer Plan		15%
		5	
		3	
		1	
		0	

**\*Specific, Measurable, Achievable, Relevant and Time-bound**

EXECUTION/PROJECT PLAN			
Over and above meeting the good rating, the important issues are approached in an innovative and efficient way, indicating that the respondent has outstanding knowledge of the latest approaches.		5	10%
The approach is generic and not tailored to address the specific programme objectives and methodology. The approach deals with the critical characteristics of the project. The quality plan, manner in which risk is to be managed is too generic.		3	
The approach or methodology is poor or unlikely to satisfy programme objectives or requirements.		1	
Bidder did not include method statement, project plan and/or execution plan.		0	

#### Phase 4

Bidders will be evaluated on Price and B-BBEE

Evaluation Criteria	Final Weighted Scores
Price	80
B-BBEE - Scorecard	10
<b>TOTAL SCORE:</b>	<b>100</b>