SOUTH AFRICAN NMPG (ZA)

**CA 392 – Foreign Dividend Indicator in South Africa**

# background

The South African market has for some time now been exploring to identify an indicator that would allow for distinguishing between a foreign and local dividend. It is imperative to make this distinction as taxes withheld abroad on a foreign dividend could be allowed as a rebate on the shareholder’s South African tax obligation. Furthermore, a non-resident shareholder may file the required certification to be exempt from South African taxes on a foreign dividend.

A dividend will be classified as a foreign when it is paid from outside the borders of South Africa.

South Africa’s investigations began with the possible usage of the COIN qualifier (Country of Income Source) that was introduced in 2016. However, SMPG advised that the way South Africa was intending to use COIN did not align to the reason it was introduced. COIN can be used where there are multiple distributions and not where there is a single distribution as in a dividend distribution.

Australia, at the Sydney meeting, then suggested that South Africa consider CDFI (Conduit Foreign Income Amount) that was part of the SRG 2018 changes. The South African Workgroup considered usage of the CDFI code and agreed that the code meets the market’s requirements. However, there was a request to investigate the usage of ITYP (Income Type). This qualifier is being used by some countries and as far as investigations indicate due to the nature of the particular security in those markets, it makes sense to utilize these qualifiers. The usage of the ITYP qualifier also requires the applicable country to publish the codes to be used on the SMPG website. The requirement to distinguish between a foreign and local dividend would need a maximum of 2 codes, e.g. 1. Local dividend and 2. Foreign dividend.

South Africa is currently using the REES code (Real Estate Property Income Portion) to indicate that the distribution emanates from a REIT security (Real Estate Investment Trust). The CDFI code is on the same list. Therefore, the least impact route to distinguish between a foreign and local dividend would be to use CDFI. Furthermore, it would prove to be less costly and less effort from a maintenance perspective.

The CDFI code will enhance communication and enable tax and entitlement computation.

Change Request

The CDFI code seems to align specifically to Australia. South Africa would thus like to propose a change to allow for the code to be used more widely.

**Current Definition**

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| CDFI | Conduit Foreign Income | Relating to a conduit foreign income type |

**Proposed Change**

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| CDFI | ~~Conduit~~ Foreign Income | Rate relating to a ~~conduit~~ foreign income type such as conduit foreign income. |

Example 1

A company incorporated in South Africa with the same tax jurisdiction declares and pays a dividend. The cash dividend will be paid from South Africa; i.e. local dividend.

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| **Security** | Firstrand Limited |
| **ISIN** | ZAE000066304 |
| **Gross Rate** | ZAR1.36 |
| **Withholding Tax Rate (TAXR)** | 20% |
| **Second Level Tax (WITL)** | 0 |
| **Net Rate** | ZAR1.088 |
| **Country from which dividend is being paid** | South Africa (ZA) |
| **Eligibility** | 1,000 |
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| **SWIFT SAMPLE**  **MT564**  :16R:CAOPTN  :13A::CAON//001 :22F::CAOP//CASH :11A::OPTN//ZAR  :17B::DFLT//Y  :16R:CASHMOVE :22H::CRDB//CRED :98A::PAYD//2019XXXX :92J::GRSS//ZAR1.36 :92J::NETT//ZAR1.36 :92A::TAXR//0,  :16S:CASHMOVE  :16S:CAOPTN |
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| **MT566** |
| 16R:CACONF :  13A::CAON//001 :22F::CAOP//CASH :11A::OPTN//ZAR :16R:CASHMOVE :22H::CRDB//CRED :97A::CASH//1234XXXX :19B::PSTA//ZAR1001.36 ::98A::POST//2019XXX :98A::VALU//2019XXX :98A::PAYD//2019XXX  ::16S:CASHMOVE  :16S:CACONF |

Example 2

A United Kingdom (UK) company has its primary listing on the London Stock Exchange and maintains a secondary listing on the JSE and declares a dividend. The dividend will be paid from the United Kingdom to shareholders on the South African register, i.e. dividend is foreign.

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| **Security** | Investec Plc |
| **ISIN** | Top of Form  GB00B17BBQ50Bottom of Form |
| **Gross Rate** | ZAR0.1998734 |
| **Withholding Tax Rate (TAXR)** | 0 |
| **Second Level Tax (WITL)** | 20% |
| **Net Rate** | ZAR0.1598987 |
| **Country from which dividend is being paid** | United Kingdom (UK) |
| **Foreign Dividend (paid from a source outside of South Africa)** | Yes |
| **Eligibility** | 1,000 |

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| **SWIFT SAMPLE**  **MT564**  :16R:CAOPTN  :13A::CAON//001 :22F::CAOP//CASH :11A::OPTN//ZAR  :17B::DFLT//Y  :16R:CASHMOVE :22H::CRDB//CRED :98A::PAYD//2019XXXX :92J::GRSS//CDFI/ZAR0.1998734 :92J::NETT//CDFI/ZAR0.15989872  :92A::TAXR//0,  :92A::WITL//20,  :16S:CASHMOVE  :16S:CAOPTN |  |
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| **MT566** |  |
| 16R:CACONF :  13A::CAON//001 :22F::CAOP//CASH :11A::OPTN//ZAR  :16R:CASHMOVE :22H::CRDB//CRED :97A::CASH//1234XXXX :19B::PSTA//ZAR159.90  :19B::CDFI//ZAR159.90  ::98A::POST//2019XXX :98A::VALU//2019XXX  :98A::PAYD//2019XXX  ::16S:CASHMOVE  :16S:CACONF |  |

Example 3

A United Kingdom (UK) company has its primary listing on the London Stock Exchange and maintains a secondary listing on the JSE and declares a dividend. The dividend will be paid from the United Kingdom to shareholders on the South African register, i.e. dividend is foreign.

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| **DETAIL** |  |
| **Security** | Old Mutual Plc |
| **ISIN** | Top of Form  GB00B77J0862Bottom of Form |
| **Gross Rate** | ZAR0.6535371 |
| **Withholding Tax Rate (TAXR)** | 15% |
| **Second Level Tax (WITL)** | 5% |
| **Net Rate** | ZAR0.5228297 |
| **Country from which dividend is being paid** | United Kingdom (UK) |
| **Eligibility** | 1,000 |
| **Foreign Dividend (paid from a source outside of South Africa)** | No |

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| **SWIFT SAMPLE**  MT564  :16R:CAOPTN  :13A::CAON//001 :22F::CAOP//CASH :11A::OPTN//ZAR  :17B::DFLT//Y  :16R:CASHMOVE :22H::CRDB//CRED :98A::PAYD//2019XXXX :92J::GRSS//CDFI/ZAR0.6535371 :92J::NETT//CDFI/ZAR0.5228297  :92A::TAXR//15,  :92A::WITL//5,  :16S:CASHMOVE  :16S:CAOPTN |  |
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| **MT566** |  |
| 16R:CACONF  :13A::CAON//001 :22F::CAOP//CASH :11A::OPTN//ZAR  :16R:CASHMOVE :22H::CRDB//CRED :97A::CASH//1234XXXX :19B::PSTA//ZAR522.83  :19B::CDFI//ZAR522.83  ::98A::POST//2019XXX :98A::VALU//2019XXX  :98A::PAYD//2019XXX  ::16S:CASHMOVE  :16S:CACONF |  |
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Example 4

A company incorporated in the United Arab Emirates, maintains its primary listing on the London Stock Exchange with a secondary listing on the JSE, declares and pays a dividend. The dividend to shareholders on the South African register will be funded from two payment sources, firstly from South African operations and then a top up payment from the UK. The dividend in this case is being funded from two countries and thus one cash rate paid from the UK will be a foreign dividend and another from South Africa a local dividend. The market announcement must communicate the two countries from where the dividend is paid.

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| **Security** | MEDICLINIC INTERNATIONAL PLC |
| **ISIN** | GB00B8HX8Z88 |
| **Gross Rate** | ZAR2.25 |
| **Split** | ZAR1.2115385 (local) |
|  | ZAR1.0384615 (foreign) |
| **Local component** |  |
| **Gross Rate** | ZAR1.2115385 |
| **Withholding Tax Rate (TAXR)** | 20% |
| **Second Level Tax (WITL)** | 0 |
| **Net Rate** | ZAR0.9692308 |
| **Country from which dividend is being paid** | South Africa (ZA) |
| **Foreign Dividend (paid from a source outside of South Africa)** | No |

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| **Foreign component** | |  |
| **Gross Rate** | | ZAR1.0384615 |
| **Withholding Tax Rate (TAXR)** | | 0 |
| **Second Level Tax (WITL)** | | 20% |
| **Net Rate** | | ZAR0.8307692 |
| **Country from which dividend is being paid** | | United Kingdom (GB) |
| **Foreign Dividend (paid from a source outside of South Africa)** | | Yes |
| **Eligibility** | | 1,000 |
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| **SWIFT SAMPLE (local)**  **MT564**  :16R:CAOPTN  :13A::CAON//001  :22F::CAOP//CASH  :11A::OPTN//ZAR  :17B::DFLT//Y  :16R:CASHMOVE  :22H::CRDB//CRED  :98A::PAYD//2019XXXX  :92J::GRSS//ZAR1.2115385  :92J::NETT//ZAR0.9692308  :92A::TAXR//20,  :16S:CASHMOVE  :16S:CAOPTN | |  |
| **MT566** |
| 16R:CACONF :  13A::CAON//001 :22F::CAOP//CASH :11A::OPTN//ZAR :16R:CASHMOVE :22H::CRDB//CRED :97A::CASH//1234XXXX :19B::PSTA//ZAR969.23 ::98A::POST//2019XXX :98A::VALU//2019XXX  :98A::PAYD//2019XXX  ::16S:CASHMOVE  :16S:CACONF |

**SWIFT SAMPLE (foreign)**

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| **MT564**  :16R:CAOPTN  :13A::CAON//001  :22F::CAOP//CASH  :11A::OPTN//ZAR  :17B::DFLT//Y  :16R:CASHMOVE  :22H::CRDB//CRED  :98A::PAYD//2019XXXX  :92J::GRSS//CDFI/ZAR1.0384615  :92J::NETT//CDFI/ZAR0.8307692  :92A::TAXR//0,  :92A::WITL//20,  :16S:CASHMOVE  :16S:CAOPTN | |
| **MT566** |
| 16R:CACONF :  13A::CAON//001 :22F::CAOP//CASH :11A::OPTN//ZAR :16R:CASHMOVE :22H::CRDB//CRED :97A::CASH//1234XXXX :19B::PSTA//ZAR830,77  :19B::CDFI//ZAR830,77  ::98A::POST//2019XXX :98A::VALU//2019XXX  :98A::PAYD//2019XXX  ::16S:CASHMOVE  :16S:CACONF |