

Reforms to diesel tax refund system could hold welcome relief for struggling SA farmers

While nothing has been confirmed by the Treasury yet, the promised reforms to the current diesel tax refund system will come as a welcome relief to South Africa's farmers. The system and its administration are set for an overhaul which will see a reduction in the increasingly onerous compliance requirements to qualify for the refund.



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The diesel rebate system has been in place since 2000 in order to encourage production in the agricultural sector (amongst others), with Sars providing a refund on the fuel and RAF levies charged on diesel to qualifying farmers.

Almost impossible to comply with onerous record-keeping requirements

However, Christine du Toit, a director of CAP Chartered Accountants advises that in order to be eligible for the diesel rebate, Sars insists on onerous record-keeping requirements in the form of purchase and sales invoices and comprehensive logbooks which detail both the storage and the use of fuel supplied to each and every vehicle and piece of equipment.

“The level of detail required by Sars includes: the source of the diesel, date of purchase, storage and use, capacity of diesel storage tanks, opening and closing balance of diesel in the equipment and storage tanks; specifics of the equipment; opening and closing meter readings of distance, duration, or speed; the specific activity eligible for diesel rebates and location the activity took place; and details relating to any non-eligible operations performed by the equipment.”

“Unsurprisingly, most farmers have found it almost impossible to comply with this level of detail, and have had their diesel rebates reversed when audited by Sars, and also given penalties and interest charges too,” says Du Toit, who explains that before April 2013, Sars allowed for 80% of the diesel rebate to be paid to farmers when records were not sufficiently kept.

“However in April 2013 it was ruled that no discretion is allowed and if the logbook does not comply strictly with all the detailed requirements it is disregarded and the rebate denied, irrespective of any efforts the farmer may have exerted to comply in good faith. This naturally led to a sharp decrease in the number of farming enterprises receiving a rebate - and the share of the diesel refund being paid to the agricultural sector declined from 46% to 11%.”

Things set to change

The 2015 Budget Review announced the reform of the diesel refund administration system. In 2018, following a comprehensive review of the administration of the diesel refund system, National Treasury and Sars will engage with affected industries and other role players as a next step in the reform process. A new diesel refund administration system will be announced in Budget 2019.

“The reform will also separate the diesel refund system from the VAT system. From the date at which the new diesel refund system commences, vendors will no longer be entitled to a VAT deduction in respect of the purchase and use of diesel for the development of small-scale farmers,” explains du Toit.

“Section 16(3)(l) of the VAT Act will be repealed and no longer applicable once the new diesel refund system kicks in. This section specifically is overlooked by SARS as it provides specified VAT deductions which are allowed to be made in the calculation of VAT liability or refunds owing.”

“As has been seen, Sars generally disallow such deduction without solid grounds and levy a 10% penalty and interest for the late payment. And even in instances where all relevant supporting documentation has been provided, Sars still make the adjustment on assessment. The taxpayer must then object to such decision where Sars was wrong to make the adjustment in order to “win” time by paying out the refund. This is commonly seen in cases where a refund is due to the taxpayer.”

Immediate avenue to ease burden of struggling farmers

“The diesel rebate is extremely important for the viability of commercial farming. Due to the devastating successive droughts in the past years, many of SA’s commercial farmers are having to consider shutting down their operations and selling their farms – a move that will lead to massive job losses and will affect food security,” says du Toit.

“Government has an immediate and obvious avenue to ease the burden of farmers, and help cash-flow and profit generation and we hope that the coming months will see speedy legislative reforms that introduce a practical and more lenient approach to diesel rebates so that farmers are able to fully benefit.”