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Tax consequences of the 2010 FIFA World Cup

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Declaration:

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Tax consequences of the 2010 FIFA World Cup South Africa, focusing on the value-added tax and income tax implications during and after the closing ceremony

1 CHAPTER 1: INTRODUCTION TO THE STUDY

1.1 BACKGROUND

With all the excitement in South Africa about the 2010 FIFA World Cup kicking off on 11 June 2010, tax relief will be granted on import tax and VAT, amongst others, in terms of the Revenue Laws Amendment Act 20 of 2006 (hereafter referred to as RLAA). FIFA (Federation Internationale de Football Association), confirmed that SAFA may have the right to serve as a host for the 2010 FIFA World Cup, but in order to qualify 17 guarantees were to be given by South African government to FIFA which is a general requirement for all host cities. These guarantees will be provided by various government departments focusing on the financial environment, safety and security, intellectual property and marketing rights, transport and telecommunications as well as custom duties, other taxes and duties and levies by the Minister of Finance.

The government of The Republic of South Africa issued several guarantees that they would comply with to meet certain requirements set out by FIFA for World Cup hosts (Wilson, 2008:1). These include, inter alia, the provision of taxation relief for qualifying individuals and entities. Trevor Manuel, former Minister of Finance, included certain provisions in the RLAA, to give effect to FIFA's requirements.

The RLAA created a tax-free bubble around the FIFA-designated sites so that profits on consumable and semi-durable goods sold within these areas will not be subject to Income tax; nor will VAT be levied.

Tax relief will be given on specific goods and services for qualifying taxpayers, as defined in the Income Tax Act 58/1962 (“The Income Tax Act”), (Wilson, 2008:1). This relief system will be governed by an accompanying abuse paragraph in the legislation in order to limit any loss that may be suffered by the South African Revenue Service (“SARS”).

The positive and negative impacts, which will arise from hosting such an international event, are important to discuss and consider. The competition amongst countries to host such an event is driven largely by the resultant international publicity and global recognition, according to Jeong and Faulkner (Bohlmann, 2006:5).

According to research the 2010 FIFA World Cup will help bring forth substantial growth in The Republic of South Africa’s economy in the next three years. Tax analysts and economists have predicted the event should bring in more than R 20-billion and create as many as 159 000 jobs. A general exemption from tax, duties and levies applies to FIFA, its subsidiaries and participating national associations. The exemption will apply to the extent that activities of entities are related to the championship.

It was predicted that the 2010 FIFA World Cup would contribute an estimated R51.1 billion to South Africa’s gross domestic product (GDP) between 2006 and 2010 (Integritax Newsletter 2008 referring to 2010 FIFA World Cup South Africa).

Looking at positive impacts of such an event in Germany, the 2006 FIFA World Cup hosts, there was a considerable increase in revenue in the tourism and hospitality industries and the thousands of people being registered for employment in Germany as a direct result of the event. The gross domestic product (GDP) rose by 2.4% (Swart & Daniels, 2008:29).

Attention was drawn to the study performed on the economic impact of the 2010 FIFA World Cup to be held in The Republic of South Africa, and it concluded that an additional R7.2 billion would be paid to government in taxes (Grant Thornton, 2003:3).

The changes made to give rise to the RLAA have a variety of advantages, disadvantages and practical implications. SARS would have needed to take these into consideration to contribute towards the effective running of the 2010 FIFA World Cup. This might also have an effect on post-World Cup tax collection and any future similar events held, for instance The Republic of South Africa's bid for the 2020 Olympic Games.

1.2 PROBLEM STATEMENT

The main purpose of performing this study is to analyze the new 2010 FIFA World Cup taxation amendments and compare them to current taxation legislation in order to highlight significant differences. It will take into consideration the following: SARS revenue streams and the practical and administrative implications for all parties involved. The study will also illustrate the potential advantages and disadvantages for the various categories (refer to page 22 for explanation of this phrase) that could result from the new legislation. Suggestions will be made on various aspects that are involved and furthermore what SARS might concentrate on to effectively manage the tax implications of this 2010 FIFA World Cup and possible changes to be made for any similar future events.

1.3 RESEARCH OBJECTIVES

The study will be guided by the following research objectives:

- To summarize the requirements set out in the RLAA in order to qualify for the tax-free bubble provisions, as well as to compare them with the current normal taxation legislation.
- To determine the positive and negative impacts on the customers and suppliers of goods and services
- To consider the impact on areas such as VAT, income tax, customs and excise duties and employee tax.
- To consider the administrative and logistical structures that SARS have set up in order for the RLAA to be implemented correctly.
- And lastly for all parties involved to understand the implications of this legislation and to analyze the possible effect on SARS revenue streams in different categories such as VAT, Income Tax, Employees Tax and Import Taxes.

To make all the phrases used clear, the definitions follows:

1.4 LIST OF DEFINITIONS

The following key concepts are all defined in either the Income Tax Act (58/1962), the Revenue Laws Amendment Act (20/2006) or the Value-Added Tax Act (58/1991).

Broadcaster: an entity which acquires the right to broadcast or transmit the basic audiovisual feed or to broadcast live radio commentary of any match of the championship in any media.

Championship: All matches and ceremonies of the 2009 FIFA Confederations Cup and the 2010 FIFA World Cup and such other directly related official events, including draws, galas, conferences and cultural events, as may be agreed in good faith between FIFA and the Commissioner.

Commercial Affiliate: Any FIFA partner, being an entity to which FIFA grants the most comprehensive package of global advertising, promotional and marketing rights in relation to FIFA, FIFA's activities and the championship. Also includes any FIFA World Cup sponsor, any national supporter (entity whose principal place of business is situated in The Republic and which is granted a third tier package of advertising in relation to the championship) and any branded licensee to which FIFA grants the right to place any official emblem on products.

Designated sites / Championship sites: A site or area as defined in Section 5 (1). Examples of this sites are – the 10 World Cup stadiums, any FIFA-designated exclusion zone, any official tournament parking, press and television centers set up for the tournament (including the National Broadcast Centre), certain training sites during official FIFA-sanctioned training days at those sites, official host city public viewing venues (also known as fan parks), certain areas for VIP's, nominated FIFA flag-store operator, any other area or facility utilized for official 2010 events as agreed in good faith between FIFA and SARS. Every entry point of these designated sites must be clearly marked and indicated on a notice and a person may be issued an accreditation card for permission to enter this area or site. Basically any official FIFA stadium and the entire premises of such inside the perimeter fence and the aerial space above such stadium premises, any exclusion zone being the area surrounding or adjacent to the stadium perimeter which FIFA notifies to the Local Organizing Committee as comprising an exclusion zone in which certain commercial activities are prohibited by entities other than Commercial Affiliates, the broadcasters, the licensees and official FIFA approved entities, any official championship related parking areas and any training sites being venues selected to host any official championship-related training session, any nominated FIFA flagship store

and lastly any official host city public viewing venues limited to a maximum of two public viewing venues per host city.

DTA: Double Tax Agreement

Entertainer or sports person: In terms of 47A of the Income Tax Act (58/1962), it includes any person, who for reward –

- i) performs any activity as a theatre, motion picture, radio or television artist or a musician;
- ii) takes part in any type of sport; or
- iii) takes part in any other activity which is usually regarded as being of an entertainment character.

Exemption date: It begins one week before the kick-off of the first match which will be on the 11th of June 2010 and ends immediately after the closing ceremony on the 11th of July 2010.

FIFA: Federation Internationale de Football Association

FIFA Designated Service Provider: means with respect to the championship –

- a) The officially appointed sole provider rendering the ticketing, on-site information technology and accommodation solutions;
- b) Any officially appointed service provider providing signage; and
- c) The host broadcaster

Gross Income, as defined in the Income Tax Act (58/1962) “in relation to any year or period of assessment, means:

- i) in the case of any resident, the total amount, in cash or otherwise, received by or accrued to or in favor of such resident, or
- ii) in the case of any person other than a resident, the total amount, in cash or otherwise, received by or accrued to or in favor of such person from a source within or deemed to be within the Republic, during such year or period of assessment, excluding receipts or accruals of a capital nature.”

Hospitality service provider: Entity appointed to conduct or operate the official hospitality program or to provide core services relating to security, infrastructure and catering for the program.

Input tax is defined in the VAT Act in relation to a vendor as... “tax charged under section 7 and payable in terms of that section... where the goods or services concerned are acquired by the vendor wholly for the purpose of consumption, use or supply in the course of making taxable supplies or, where the goods or services are acquired by the vendor partly for such purpose, to the extent (as determined in accordance with the provisions of section 17) that the goods or services concerned are acquired by the vendor for such purpose.”

Licensees: Any entity to which FIFA grants the right to use any official emblem on items of merchandise and in its marketing and advertising activities in relation to the sale of those items of merchandise, but to which it does not otherwise grant any advertising, marketing or promotional rights related to FIFA of the championship.

Local Organizing Committee: means the official FIFA accredited body in the Republic responsible for the entire organization, staging and hosting of the championship.

Merchandising partner: Entities appointed by FIFA as its representative for soliciting and appointing prospective licensees, or any other entity entitled to conduct FIFA or championship retail merchandise operations.

Nominated FIFA flagship store: the single retail store nominated by FIFA for FIFA's retail concept and which only retails consumable and semi-durable championship-related goods and, in FIFA's discretion, meals and beverages sold for consumption within the confines of an in-store restaurant but excluding cosmetics and tobacco products.

Permanent Establishment is described in the Income Tax Act (58/1962) as "defined from time to time in Article 5 of the Model Tax Convention on Income and on Capital of the Organization for Economic Co-operation and Development (OECD)". The OECD Model defines a permanent establishment as "the carrying on of the business of the enterprise through this fixed place of business".

Qualifying person in terms of the RLAA means:

- i) FIFA and FIFA subsidiaries;
- ii) FIFA national associations;
- iii) FIFA confederations;
- iv) Media representatives;
- v) Commercial affiliates;
- vi) Merchandising partners;
- vii) Licensees;
- viii) FIFA flagship store operator;
- ix) FIFA designated service providers, including the pitch importer, concession operators, hospitality service providers, design services, events management and marketing operations services and office suppliers; and

- x) The host broadcaster, broadcasters and broadcast rights agencies.

A **Resident** is defined in section 1 of the Income Tax Act (58/1962) as:

“(A) natural person who is—

- i) Ordinarily resident in the Republic; or
- ii) Not at any time during the year of assessment ordinarily resident in the Republic-
 - (aa) for a period or periods exceeding 91 days in aggregate during the relevant year of assessment, as well as for a period or periods exceeding 91 days in aggregate during each of the three years of assessment preceding such year of assessment; and
 - (bb) for a period or periods exceeding 549 days in aggregate during such three preceding years of assessment”

Provided that—

- (a) for the purposes of items a) and b) a day shall include a part of a day; and
 - (b)
- (B) Person (other than a natural person) which is incorporated, established or formed in the Republic or which has its place of effective management in the Republic (but excluding any international headquarter company).

RLAA: Reference made to this term indicates The Revenue Laws Amendment Act 20 of 2006

SAFA: South African Football Association

SARS: The South African Revenue Service

Tax-free bubble: A condition for hosting the tournament. FIFA, FIFA subsidiaries and participating national associations (excluding SAFA) will, when it comes to VAT on goods and services directly relating to the tournament, be treated as a diplomatic mission. This means that in the FIFA-designated sites, profit on consumable and semi-durable goods sold within these areas will not be subject to income tax, neither will VAT be levied.

Traffic-free zone: a Public road or area as contemplated in Section 7 (1) (b). This zone is either clearly marked as traffic-free zone or is identified by the National Commissioner of the SA Police service. In this zone or park no vehicle may be driven without the prescribed notice authorizing the presence of this particular vehicle.

VAT: Value-added tax, which is an indirect tax based on consumption, is usually charged at 14%. Revenue is raised for the government by requiring certain enterprises to register and to charge VAT on taxable supplies of goods or services. SARS (The South African Revenue Service) is a government agency which administers the VAT Act and ensures that the laws relating to tax are properly enforced and that the correct amount of tax is collected.

Zero-rated VAT charges: A taxable supply at a rate of zero-percent, the effect being that related input tax can be claimed.

2 CHAPTER 2: TAXATION LEGISLATION (BEFORE 2010 AMENDMENTS)

2.1 INTRODUCTION

The legislation discussed below was applicable to all entities, and remains applicable to all entities which are not categorized as ‘qualifying persons’ as defined in the RLAA.

2.2 VAT LEGISLATION

Background to VAT

The definition of an “enterprise” in Section 1 of the Value-Added Tax Act 1991 is: “*Any activity which is carried out on a continuous or regular basis by any person in The Republic of South Africa in the course of which goods or services are supplied to any other person for a consideration*”.

In the Republic of South Africa VAT is destination based, which means that only the consumption of goods and services in South Africa is taxed. VAT is therefore charged on the supply, by a vendor, of goods or services in South Africa as well as on the importation of goods into South Africa. VAT on supplies can be either at the standard rate of 14%, be exempt (no VAT on purchases or supply of goods) or subject to zero-rate (VAT can be claimed on purchases but no VAT needs to be paid over on supplies). The importation of services is only subject to VAT where the importer is not a vendor, or where the services are imported otherwise than for making taxable supplies.

The term 'person' as used below includes any company (incorporated in the Republic of South Africa or outside of the Republic of South Africa), any branch and any body of persons; for example joint ventures.

Persons who make taxable supplies in excess of R1 million in any consecutive 12-month period are liable for compulsory VAT registration but a person may also chose to register voluntarily provided that the minimum turnover threshold of R 50 000 has been exceeded in the past 12-month period. Enterprises registering for VAT, will include administration costs seen as every two months a VAT 201 return must be submitted where all purchases and supplies are declared and the balance either paid over to SARS or due as a refund (normally no later than the 25th day after the end of the tax period concerned, or the 31st day if handed in electronically.)

Seeing as VAT is also an invoice-based tax, vendors are generally required to account for VAT on the invoice (accrual) basis.

- **Section 7: Charging section (VAT Output)**

Section 7 of the VAT Act (89/1991) states that “there shall be levied and paid for the benefit of the National Revenue Fund a tax, to be known as the value-added tax”

- a) On the supply by any vendor of goods or services supplied by him on or after the commencement that in the course or furtherance of any enterprise carried on by him;
- b) On the importation of any goods into the Republic by any person on or after the commencement date; and
- c) On the supply of any imported services by any person on or after the commencement date, calculated at the rate of 14 per cent on the value of the supply concerned or the importation, as the case may be.”

In *Metropolitan Life Ltd v CIR*, at issue was the supply of services made by a supplier resident or by carrying on business outside the Republic. The appellant was a resident of the Republic. The services were found to be utilized or consumed in the Republic (although the appellant argued that the services were utilized outside The Republic of South Africa), otherwise than for the purpose of making taxable supplies. The question was whether Section 11(2)(k) or Section 14(5)(b) of the Value-Added tax Act of 89 of 1991 was applicable. The court followed the same approach as in *SARS v Airworld CC* and that is to discover the purpose with which the legislature has enacted the relevant provision. Section 11(2)(k) states that the services must physically be rendered elsewhere than in the Republic of South Africa which implies falling into the definition of imported services and resulting into zero-rate VAT. Section 14(5)(b) deals with non-taxable supplies and states that services supplied in The Republic will be taxed at zero percent if this services comply with the terms of Section 11 of the Value-Added Tax Act or will be exempt if complying with Section 12 of the Value-Added Tax Act. In this case the appellant was a life insurance company and a resident and the recipient of the services was a non-resident, but the service was utilized in the Republic of South Africa and further it was ruled that Section 11(2)(k) is inapplicable to this kind of service. Section 14(5)(b) also didn't apply seen as the services rendered taxable supplies. Thus normal VAT of 14% was held to apply in accordance with Section 7(1)(a) of the Value-Added Tax Act 89 of 1991.

This can be applicable when organizing such a large event and hosting The Republic of South Africa's first FIFA World Cup, the country may be in need of overseas logistic company's services. The services will be directly utilized in connection with the FIFA World Cup and mostly in the designated sites and thus making the services rendered other than for the purpose of making taxable supplies in accordance with Section 14(5)(b). Although the company delivering the service is not a resident, the services will be utilized in The Republic falling into Section 11 (2)(k), but because the services will be rendered in the designated sites, it will be services rendered other than for the purpose of making taxable supplies and so be taxed at zero-rate.

- **Section 11 Zero Rating and Section 12 Exemptions**

Goods which are zero-rated as stipulated in section 11 of the VAT Act (89/1991) are taxable supplies, but they will attract VAT at a rate of 0%. As they are still considered taxable supplies, the vendor will still be entitled to input tax deductions where the expenses incurred in the course of making taxable supplies.

For an enterprise to use Section 11 to claim zero-rated VAT on goods exported the needed documentation is necessary to prove this transactions, seeing as it is the taxpayer's responsibility. In *Alliance Cash and Carry (Pty) Ltd v CIR*, the taxpayer brought application into the High Court to compel the Commissioner for SARS to provide it with certain information and documentation contained in its files which it contended were reasonably required to prepare for a hearing of its pending appeal before the Special Court against the Commissioner's assessment. It was held that the taxpayer had masqueraded an application to compel discovery or to obtain further and better discovery of documentation under the enforcement of its rights under the Constitution. The taxpayer should be in a position to prove its case by its own documents but seemed to be after other evidence that was in the Commissioner's possession and if it wished to succeed in respect of such evidence it had to show that such evidence existed and was in the possession of the Commissioner. The taxpayer couldn't prove that the Commissioner was in possession of the needed documentation and so the taxpayer didn't have the necessary documentation to prove that their goods were exported. Normal VAT of 14% was levied.

This may be applicable when after exemption date, some suppliers have left-over stock and instead of keeping it in The Republic of South Africa and pay normal VAT of 14% when being sold, export it and thus falling into Section 11 of the VAT Act which results into zero rated VAT. These suppliers will need to obtain the relevant documentation to utilize the zero-percent VAT rate.

Goods which are exempt from VAT are non-taxable supplies; nor will input VAT be claimed. Section 12 contains a list of supplies that are exempt from VAT.

- **Input tax**

Input tax is defined in the VAT Act (89/1991) in relation to a vendor as “tax charged under section 7 and payable in terms of that section... where the goods or services concerned are acquired by the vendor wholly for the purpose of consumption, use or supply in the course of making taxable supplies or, where the goods or services are acquired by the vendor partly for such purposes, to the extent (as determined in accordance with the provisions of section 17) that the goods or services concerned are acquired by the vendor for such purposes”.

Thus entities responsible for paying output VAT are entitled to claim an input tax deduction based on the provisions of the Value-Added Tax Act (89/1991) as long as they are making taxable supplies, together with some other requirements.

2.3 INCOME TAX LEGISLATION

Section 5 of the Income Tax Act (58/1962) states that the income tax will be levied on all persons (defined in section 1 as including an insolvent estate, deceased estate and any trusts) and companies in respect of taxable income received.

Income tax is tax payable by such persons to SARS on gross income received or accrued (together with other income such as capital gains etc) after allowing certain deductions. Income tax is payable on taxable income, the starting point of which is gross income. The taxable income amount is determined after taking account of exemptions, deductions and

amounts that are included in taxable income in terms of the Act (e.g. Taxable capital gains).

- **Gross Income**

Gross income, defined in the Income Tax Act (58/1962) in relation to any year or period of assessment, means:

- i) in the case of any resident, the total amount, in cash or otherwise, received by or accrued to or in favor of such resident, or
- ii) in the case of any person other than a resident, the total amount, in cash or otherwise, received by or accrued to or in favor of such person from a source within or deemed to be within the Republic of South Africa, during such year or period of assessment, excluding receipts or accruals of a capital nature.

Residence is a very important aspect when it comes to taxing a person on their gross income. In *CIR vs. Kuttle* the taxpayer immigrated to the United States and was granted a permanent residence permit but still returned to SA for numerous business and private occasions. To decide where the taxpayer will be taxed on income earned in the Republic of South Africa, the court looked at the definition of ordinarily resident. It adopted the formulation of Shreiner JA in *Cohen vs. CIR*, 46 SATC 362 and held that a person is 'ordinarily resident' where he has his usual residence what may be described as his real home – a person can't be an ordinarily resident in two places at the same time.

Residence can also be determined by using the physical presence test as explained by Interpretation note No. 4 (Issue 3) – 8 February 2006. The requirements are as follows:

- A natural person who is not at any time during the relevant year of assessment ordinarily resident in the Republic, if that person was physically present in the Republic
 1. For a period or periods exceeding 91 days in aggregate during the relevant year of assessment, as well as for a period or periods exceeding 91 days in aggregate during each of the five years of assessment preceding such year of assessment ; and
 2. For a period or periods exceeding 915 days in aggregate during those five preceding years of assessment

If the above mentioned requirements are met that person will be a resident with the effect from the first day of that relevant year of assessment.

In *Commissioner for Inland Revenue v Lever Brothers & Unilever Ltd* it was held that the respondent company was carrying on business in England. The respondent company entered into an agreement with a company in Holland, under which the Dutch company acquired certain assets from the respondent company and became indebted to the respondent company upon which debt it agreed to pay interest. As security for this indebtedness, the Dutch company lodged with a company in England, shares in excess of the amount of the indebtedness, the major part of which were shares in an American company carrying on business in the United States. A few years later a South African company was formed with which agreements were entered into, the result being vesting all the interest of the Dutch company in the shares held by the trustee company as security for the Dutch company's indebtedness in South Africa. The Commissioner wanted to tax the company on the interest income in the South African company but the Appellate Division of the Supreme Court found that no capital had been advanced by them in South Africa – the source of the interest received by the respondent company under the agreements was not to be located in South Africa.

Thus, whether a person is a resident or non-resident, income from a South African source (or deemed source) is taxable in The Republic of South Africa (ignoring any double taxation agreements).

- **Section 11(a) and section 23(g) general deduction formula and prohibited deductions**

The general deduction formula contained in section 11 of the Income Tax Act (58/1962) states that: “*there shall be allowed as deductions from income of such person so derived, expenditure and losses actually incurred in the production of the income*”. In other words trade is a requirement to fall within this section. If expenditure is incurred, but is not laid out or expended for the purposes of trade Section 23(g) will be applicable, and the expenditure will not be deductible from taxable income.

- **Permanent establishment**

Permanent establishments play a pivotal role in several international tax provisions in the Income Tax Act (58/1962) as well as in Double Tax Agreements (‘DTA’). Without DTAs, individuals and entities might have to pay taxation in two countries.

Article 5, a very important article in the model double taxation treaty, deals with the taxation of business profits. It states that “an enterprise of one state will not be subject to tax in the other state, unless its activities are conducted through a “permanent establishment” in that other state”. Thus a foreign company which complies with a DTA with the Republic of South Africa will not be taxed in the Republic unless profits are earned through a permanent establishment in the Republic, and only to this extent.

The OECD Model defines a permanent establishment as “the carrying on of the business of the enterprise through this fixed place of business”. In *SIR vs. Downing* – profits

accrued to a Swiss resident from sale of shares made on his behalf by a Johannesburg stockbroker in the course of managing the Swiss resident's South African portfolio of shares. Article 5 applied because the broker in the Republic of South Africa was acting within the scope of his ordinary functions as a stockbroker for all his clients including Mr. Downing, and the Special court decided that the mere employment of a broker to handle his portfolio was not a permanent establishment, and so the profits were not taxable in South Africa.

Hand in hand with Article 5 is Article 4 which deals with persons covered by the treaty – the bottom line for a person to take advantage of a treaty is that the person must be a resident of that country. This was confirmed in CIR vs. Commerzbank AG where the bank was incorporated in Germany and it received interest from corporations in the USA. The bank then claimed relief in terms of S 497(1) of the 1970 Act and Article XV of the double taxation convention between the UK and USA because Commerzbank AG did indeed have a branch in England. The permanent establishment was still in Germany and the UK branch's income will already be included, thus Commerzbank AG was not a resident in the UK and so did not fall within the regulations of Article 4 and couldn't receive any relief.

- **Withholding tax**

Section 35 of the Income Tax Act (58/1962) states that “*any person (other than a resident or a controlled foreign company) shall be liable for tax, to be known as the withholding tax on royalties which are of use or right of use in the Republic of South Africa, which shall be levied and paid for the benefit of the National Revenue Fund at a rate of 12 per cent of such amount*”.

Section 35A deals with withholding tax from payments to non-resident sellers of immovable property – any person who must pay an amount to any other person who is not a resident, or to any other person for or on behalf of that seller, in respect of the

disposal by that seller of any immovable property in the Republic must withhold from the amount which that person must so pay, an amount equal to –

- a) 5 per cent of the amount so payable, in the case where the seller is a natural person;
- b) 7.5 per cent of the amount so payable, in the case where the seller is a company;
and
- c) 10 per cent of the amount so payable, in the case where the seller is a trust.

- **Withholding tax – Foreign entertainers and sportspersons**

Section 47B of the Income Tax Act (58/1962) states that a tax of 15% will be levied on foreign entertainers and sportspersons, in respect of any amount received by or accrued to any person (being an entertainer or sportsperson) who is not a resident. This tax will be levied in respect of any specified activity (as defined in the Act) exercised or to be exercised by that person who is not a resident.

However, the rules do not apply to an employee of an employer who is a resident; and is physically present in the Republic of South Africa for a period or periods exceeding 183 full days in aggregate during any 12-month period commencing or ending during the year of assessment in which the specified activity is exercised.

This tax is to be withheld by the payer in the form of a withholding tax and is to be deducted from the gross amount paid to the individual.

West (2009) states that this might be a problem area in the sense that withholding tax was found to be wider than that of the South African DTA sportsperson articles and this misalignment has also been replicated on the concessionary legislation for the 2010 FIFA World Cup seen as the Republic of South Africa has not concluded DTAs with the bulk of

potential qualifying countries, the possibility of double taxation for sportspersons, support and auxiliary staff is increased. The big issue is exchange of information between countries to make sure that the income is at least taxed once between the source state and resident state – although advances in exchange of information are progressing rapidly and is hoped to remove the need for withholding taxes in the near future.

- **Section 31 – determination of taxable income of certain persons in respect of international transactions**

Goods include any corporeal movable thing, fixed property and any real right in any such thing or property while services includes anything done or to be done, including without limiting the generality of the granting of any right, making available of any facility and granting of financial assistance.

Where any supply of goods or services has been effected between any resident and any other person who is not a resident; a permanent establishment in the Republic of South Africa and a person who is not a resident; a resident and a permanent establishment outside the Republic of South Africa of a person who is a resident, the Commissioner may adjust the consideration in respect of the transaction to reflect an arm's length price for the goods or services where those persons are connected persons.

2.4 EMPLOYEES' TAX

The Fourth Schedule of the Income Tax Act (58/1962) states that “every employer who is a resident, or representative employer in the case of any employer who is not a resident, whether or not registered as an employer under paragraph 15, who pays or becomes liable to pay any amount by way of remuneration to any employee shall, unless the Commissioner has granted authority to the contrary, deduct or withhold from that amount

by way of employees tax, an amount which shall be determined in respect of the liability for normal tax of that employee”.

2.5 IMPORT TAXES (CUSTOMS AND EXCISE DUTIES)

The Customs and Excise Act (1964) includes provisions for the import and export of goods and services into and from the Republic. Because FIFA is an international organization, and the international media and sponsors will be importing goods and services for the championships into the Republic of South Africa, it is necessary to take these taxes into consideration.

2.6 CONCLUSION

The above overview of the relevant legislation sets out the normal rules which currently exist in the Republic of South Africa taxation legislation and which will continue to apply to entities not categorized as ‘qualifying persons’ or to income that does not qualify as exempt income according to the RLAA.

3 CHAPTER 3: 2010 FIFA WORLD CUP TAXATION LEGISLATION

3.1 INTRODUCTION

The RLAA (20/2006) introduced the following legislation, which will override the current legislation with respect of qualifying individuals and/or qualifying income and expenses. For the purpose of the new legislation, the appropriate category of an entity must first be identified, because different rules apply to different categories. For the purposes of this dissertation the different categories are defined as follows:

Category 1 – Entities exempt from all taxes, duties and levies;

Category 2 – Other entities affiliated with FIFA;

Category 3 – Resident individuals working for FIFA;

Category 4 – Non-resident individuals.

The parties qualifying under each of these categories are set out below.

Category 1 – Entities exempt from all taxes, duties and levies

This applies to FIFA, its subsidiaries and all participating National Associations (other than the South African Football Association (SAFA)). For purposes of this study, these will be referred to as ‘Category 1 Entities’.

In general, these entities receive total exemption as far as taxes are concerned. The exemptions are applicable to these entities to the extent that their activities are related the championship.

Category 2 – Other entities affiliated with FIFA

These entities include ‘Commercial Affiliates’ (being FIFA partners, FIFA World Cup sponsors, national sponsors and branded licensees), licensees, host broadcasters, broadcasters or broadcast rights agencies, merchandising partners, FIFA-designated service providers, concession operators, hospitality service providers and the nominated FIFA flagship store operator. For purposes of this study these will be referred to as ‘Category 2 Entities’.

In general these entities may receive some exemptions provided that they adhere to certain conditions, or the tax exemptions may only be applied with respect to the sale of certain goods. The exemptions applicable to these entities are to the extent that the sales take place in official FIFA sites.

Category 3 – Resident individuals working for FIFA

This group includes South African individuals who are employed in The Republic of South Africa by FIFA. The 2010 FIFA World Cup tax legislation has stipulated different rules applying to this group of individuals. This is discussed in sections 4.3.1 and 4.3.2 below. For purposes of this study, these individuals will be referred to as ‘Category 3 Entities’.

Category 4 – Non-resident individuals

These are individuals who are not South African residents. Certain exemptions discussed below apply to the receipts and accruals of non-resident staff of entities exempt from taxes (category 1 entities) or those affiliated with FIFA (category 2 entities). For purposes of this study these individuals will be referred to as ‘Category 4 Entities’.

However, this does not include SAFA officials and directors and staff of the Local Organizing Committee (even if they are not resident in The Republic of South Africa) or soccer team members, for whom withholding tax in terms of section 47B will remain in place.

The rules applying to each type of tax as mentioned under point 4.2 (VAT, income tax, employees' tax and import taxes) will now be overviewed as they refer to each of the above groups.

3.2 VAT LEGISLATION

General amendments focusing on ticket sales and value-in-kind transactions

The basic principle is that VAT on supplies of goods and services made within these FIFA-designated sites will be zero-rated (the tax-free bubble concept), but the input tax on the supplies will be claimable by the vendors concerned and so should increase the revenue generated significantly. All of this is only applicable when in the exemption time span – refer to list of definitions. But with regard to training sites for participating teams, the concession will only be allowed during official FIFA sanctioned training days, at the training sites. For public viewing venues in official cities, the tax-bubble operates during match days only. With FIFA flagship stores the bubble will be effective for 6 months before the 2009 Confederations Cup and end one month after the closing ceremony of the 2010 FIFA World Cup. It must be remembered that taxable supplies made outside any of the designated sites and exemption time will be subject to the normal VAT charge.

Ticket prices will have no tax-relief as all ticket sales will be subject to VAT at the standard rate of 14%. Those buying souvenirs should benefit, as vendors falling within the bubble should charge like-for-like prices that are lower than those charged by vendors falling outside the bubble.

Entities qualifying for this relief must still register for VAT and will then be required by SARS to levy VAT at the zero rate on such supplies, which means they don't have to pay over any output tax but can claim input tax on that specific goods. For these entities to qualify they must obtain all the relevant documentary proof to substantiate the imposition of the zero rate.

Looking at commercial affiliates, which for the 2010 FIFA World Cup include FIFA partners, FIFA World Cup sponsors and national supporters, are entitled to purchase a certain number of match tickets from FIFA or the 2010 FIFA World Cup Ticketing (Pty) Ltd which includes VAT at 14%. These ticket costs will fall within the category of entertainment and usually VAT incurred on goods and services falling in that category are not permissible input tax deductions unless the vendor acquiring the entertainment makes taxable supplies of entertainment in the ordinary course of his enterprise which continuously supplies entertainment. The entertainment must be supplied for a consideration to clients and customers. In addition the consideration charged must cover all direct and indirect costs of such entertainment or must be equal to the open market value of such supply of entertainment.

Thus commercial affiliates who do not normally supply tickets to watch soccer matches are unable to deduct the VAT in respect of the tickets purchased from FIFA. There are two exceptions though being promotions and prizes awarded in respect of a betting transaction.

Concerning promotions the commercial affiliate will be permitted to deduct the VAT paid on the purchase of match tickets for FIFA where the commercial affiliate normally supplies taxable entertainment for VAT purposes and as part of a promotion offers tickets for free without any requirement for a bet.

Prizes awarded in respect of a betting transaction means that the commercial affiliate may deduct the VAT paid on the purchase of a match ticket where it runs a competition in which the consumer places a bet and stands a chance of winning a match ticket. The ability to deduct input tax in this instance is dependent upon the placing of a bet, a situation in which the consumer actually wagers an amount of money that some or other predicted event or occurrence will occur.

The amount needs to be separately identifiable and these affiliates will also have to comply with the laws of The Republic regarding lotteries and gambling.

Shifting the focus to value-in-kind transactions, for example those where FIFA enters into agreements with commercial affiliates which result in the consideration which FIFA receives consisting of payments in cash and/or value-in-kind. A transaction is a value-in-kind transaction if the vendor (commercial affiliate) is required to supply goods or services as payment to FIFA.

Concerning the VAT implications of these kinds of transactions the supply involving value-in-kind transaction entered into by FIFA and national supporters are zero-rated. The zero rating is conditional upon FIFA implementing cross checks in order to alleviate and ensure that there is at all times compliance with the legal obligations. These cross checks include confirmation of the entities which will supply value-in-kind goods and services to FIFA, and confirmation of the nature of the products to be supplied and lastly notification to SARS of the nature of the items supplied and for which the zero rating applies.

- **Category 1 Entities – Entities exempt from all taxes, duties and levies**

These entities will be regarded as diplomatic or consular missions as stated in section 68(1) (b) of the Value-Added Tax Act (89/1991) for purposes of obtaining a refund for VAT on transactions concluded directly in connection with the Championship. This implies that goods sold at Championship sites will be zero-rated, i.e. charged with VAT of 0%; purchasers will thus not pay VAT on goods acquired, which will render them cheaper. And sellers won't have to pay over any input VAT.

- **Category 2 Entities – Entities affiliated with FIFA**

These entities must levy VAT at the zero rate on all supplies that relate to the sale of goods or services at a Championship site. They will also be liable to pay VAT on VAT able purchases and claim these VAT inputs, as they are making taxable supplies at a zero rate.

- **Category 3 Entities – Resident individuals working for FIFA**

Resident individuals who are working under salaried employment are not required to pay or charge VAT on their earnings. There are no VAT implications for these individuals to this extent.

- **Category 4 Entities – Non-resident individuals**

Individuals not carrying on an enterprise are generally not registered as VAT vendors, so there are no VAT implications for these individuals to the extent that they are working under salaries employment. Their involvement with VAT is limited to VAT levied on

goods and services purchased from South African vendors by the non-resident individual at either 0% or 14%. This can be claimed back at the airport on leaving the country, subject to further limits and requirements.

3.3 INCOME TAX

- **Category 1 Entities – Entities exempt from all taxes, duties and levies**

General taxation requirements

An exemption is awarded covering all taxes, duties, levies and other amounts imposed in terms of the Acts administered by the Commissioner, except for those stated below. This is awarded to the extent that the activities will contribute to the hosting of the FIFA World Cup.

The above regulation is based on the definitions of two important terms, ‘Championship’ and ‘Championship duration’, as defined in the list of definitions. These definitions include defined events relating to the 2009 Confederations Cup and to 2010 FIFA World Cup and other directly-related events, including draws, galas, conferences and cultural events, from the opening ceremony until the closing ceremony of the respective events.

The general exemption does not apply to certain taxes: fuel taxes; excise duties, plastic bag levy, air passenger departure tax, skills development levies, local government and provincial taxes. These taxes are governed by their own acts.

Permanent establishments

These category 1 entities are also deemed not to have permanent establishments in The Republic of South Africa as a result of any activities carried on in The Republic relating to the Championships. As the 2010 FIFA World Cup legislation excludes FIFA from a permanent establishment, FIFA cannot be taxed in The Republic of South Africa in terms of a double taxation agreement. It also means that FIFA is relieved of this burden of considering whether it would qualify as a permanent establishment.

Withholding tax

Any person who is liable to pay any amount to FIFA, its subsidiaries and participating National Associations (other than SAFA) is not required to withhold any amounts in the form of withholding taxes for income which would otherwise be subject to this tax as detailed in the Income Tax Act (58/1962) in terms of:

- i. Section 35 (withholding tax on royalties)
- ii. Section 35A (withholding tax on payments to non-resident sellers of immovable property); and
- iii. Section 47A – 47K (taxation of foreign entertainers and sportspersons).

- **Category 2 Entities – Entities affiliated with FIFA**

General taxation requirements

Any receipt or accrual by these affiliated entities is excluded from gross income, to the extent that it is derived by that person from the sale of any consumable or semi-durable goods, or from any service rendered by that entity, provided that:

- i. it is intrinsic to the staging of the World Cup;
- ii it is utilized or partially utilized at a designated site;
- iii it is restricted to certain days relevant to certain sites.

If these requirements are met, the income received by or accrued to these entities will effectively be tax-free.

Withholding tax

The withholding tax exemptions applicable to category 1 entities will not apply to category 2 entities.

- **Category 3 Entities – Resident individuals working for FIFA**

General taxation requirements

As FIFA is not registered as an employer and withholds no employees' tax, residents of The Republic of South Africa are deemed to be provisional taxpayers in respect of the income received by them from FIFA (2010 FIFA World Cup South Africa).

Withholding tax

No withholding tax is payable by resident individuals.

- **Category 4 Entities – Non-resident individuals**

General taxation requirements

Income generated by certain non-residents associated with FIFA is excluded from gross income, to the extent that it is derived from activities connected with the Championship.

This provision relates to receipts and accruals by non-residents who are:

- Members of the FIFA delegation;
- Championship referees or assistant referees;
- Officials of any participating national association;
- FIFA confederation officials;
- Media representatives;
- Staff members of commercial affiliates/merchandising partners/FIFA designated service providers/host broadcasters/broadcast rights agencies/broadcasters.

Withholding tax

Officials of SAFA, members of a team and any directors and staff members of the Local Organizing Committee do not receive any withholding tax exemptions. Withholding taxes will be levied in respect of non-resident team members in accordance with international practice, so the relevant DTAs will be applicable.

As discussed above, non-residents will not be taxed on any income derived in South Africa. However, this relief does not extend to soccer team members, who will be subject to a withholding tax on foreign sports persons as contained in sections 47A to 47K of the Income Tax Act (58/1962).

3.4 EMPLOYEES' TAX

- **Category 1 – Entities exempt from all taxes, duties and levies**

Category 1 entities are not required to register as employers in terms of the Fourth Schedule to the Income Tax Act (58/1962) or to deduct or withhold any employees' tax.

The entity must provide the Commissioner with a list of names, identification numbers and addresses of all its employees who are residents of The Republic of South Africa and in respect of whom the provisions of the Fourth Schedule to the Income Tax Act (58/1962) would, but for these special rules, apply.

The above mentioned employees are deemed to be provisional taxpayers according to Paragraph 5(3) and that you can qualify for this by being a resident of The Republic of South Africa, including the physical presence test, which can have administration implications seen as now the employees are residents and they have to go through the process of registration, although the person's normal place of residence (where the person owns property and bank accounts are opened) is not in the Republic. This also implies that they have to hand in provisional tax returns (IRP 6) although they are not in the country anymore which can cause inconvenience for both the taxpayer and SARS. The other alternative is to deregister

for provisional tax, which again is an administration burden on both parties involved.

The provisions of the Unemployment Insurance Contribution Act and Skills Development Levies Act are still applicable to all residents in The Republic of South Africa in respect of any employees of these category 1 entities.

The tax treatment of other entities, which in all likelihood includes many hotels, B&B's, guesthouses, restaurants and other hospitality providers will qualify as "other entities", and be afforded with special tax treatment.

- **Category 2 – Other entities affiliated with FIFA**

Normal employees' tax regulations apply to these entities.

- **Category 3 – Resident individuals working for FIFA**

As FIFA is not registered as an employer these individuals will not be paying employees' tax and should register as provisional tax payers.

The provisions of the Unemployment Insurance Contribution Act and Skills Development Levies Act are still applicable to all residents in The Republic of South Africa in respect of any employees of FIFA.

- **Category 4 –Non-resident individuals**

They will not be registered for employees' tax but will be required to register for and pay provisional tax.

3.5 IMPORT TAXES (CUSTOMS AND EXCISE DUTIES)

A new rebate item 413 to Schedule no 4 of the Customs and Excise Act No. 91 of 1969 has been inserted which results in:

- A full rebate of customs duty for importation of consumable or semi-durable goods (any goods including clothing, footwear, textiles and glassware that have a limited economic lifespan with a unit selling price not exceeding R 2000) imported by qualifying persons for sale at any site during the World Cup.
- A full rebate of customs duty for importation of capital goods, consumable goods or promotional material, individually of little value, imported not for sale but for consumption, use or distribution in connection with the World Cup.
- A full rebate of customs duty for importation of samples of consumables and semi-durable goods imported not for sale, but for distribution at any site during the World Cup. (KPMG, 2010)

The goods must be sold, distributed, abandoned, donated or exported within the required time period, otherwise duty will become payable upon demand by SARS.

3.6 HOSPITALITY SERVICES

MATCH (which is based in Zug – Switzerland) has been appointed as an official FIFA-designated service provider to the hospitality industry for the World Cup. Its

activities will include providing accommodation, hotel and non-hotel for example bed and breakfasts and guesthouses. In fact this is the first time in history of the FIFA World Cup that non-hotel accommodation is being contracted to supplement the official hotel room inventory.

According to Mr. van Schalkwyk, the minister of environmental affairs and tourism, one of the accommodation objectives for the FIFA World Cup 2010 is to incorporate small, medium and micro enterprises (SMME's) within the accommodation industry into MATCH's accommodation offering.

In contacting with the hotel and restaurant industry, MATCH will act as the middleman between hospitality providers and end-users or customers. With MATCH qualifying for tax treatment as an "other entity", its receipts and accruals will be excluded from "gross income" to the extent that they are derived from the sale of any goods or rendering of services to the championship. While FIFA has stipulated that hotels and non-hotel accommodation providers are not compelled to contract rooms to MATCH, they are advised to do so as this will secure tax relief in the tax-free bubble.

3.7 CONCLUSION

This concludes the discussion of the 2010 FIFA World Cup taxation legislation. This legislation will now be compared with the normal taxation legislation to determine the advantages or disadvantages for consumers and suppliers of goods and to consider the impact that this new legislation will have on SARS and tax collections.

4 CHAPTER 4: COMPARISON OF NORMAL LEGISLATION TO FIFA WORLD CUP LEGISLATION

4.1 INTRODUCTION

In order to identify the actual impact of the World Cup on tax streams, the current legislation and World Cup provisions discussed above need to be compared.

4.2 VAT LEGISLATION

During the 2010 FIFA World Cup, goods and services will be supplied in the stadium and the surrounding areas. These goods will be supplied by residents and non-residents in the furtherance of their enterprises. Assuming that all the VAT registration requirements are met, VAT should be levied by these vendors and paid over to SARS.

FIFA officials (Category 1 entities) may have to import goods and services in order to resell them and provide services related to the FIFA World Cup. According to section 7 of the VAT Act, VAT should be paid on the importation of these goods. However the amendments in the RLAA (20/2006) mean that there is no VAT on the importation of these goods for resale, rendering of services or any other purpose that relates to hosting the FIFA World Cup. Furthermore, the amendments have deemed all these sales in the designated areas and by qualifying persons to be zero-rated, so the amount to be paid over to SARS is zero.

FIFA will, however, be treated as a diplomatic person entitled to inputs for all VAT paid by it in The Republic of South Africa. This means that FIFA's effective expenditure will be the value excluding VAT, so its final costs will be lower and its final profits higher.

The disadvantage for SARS is that the zero-rated sales will not generate income for it. This means that a portion of sales of consumables sold by qualifying persons to residents, which would otherwise have been taxable and which would have generated VAT at 14%, will not generate any income for SARS during the World Cup. Moreover, as FIFA will be entitled to claim all inputs, the most likely result will be a net refund position. SARS will therefore lose out on this VAT revenue.

VAT on supply of goods and services made within sites will be zero-rated, but vendors will be able to claim input tax. This will result in increased profits for vendors, as no output will have to be paid to SARS.

Tourists and residents alike who buy souvenirs should benefit, as vendors falling within the tax-free bubble should charge 'like-for-like' prices that are lower than those charged by vendors falling outside the bubble. However, this will be the case only if vendors qualifying for the VAT exemption do not include the VAT component in their selling price, which would result in a double benefit and would amount to going against the intention of the concessions. This however is not a requirement but rather the intention of The South African Revenue Service, because of the difficulty to ensure that the like-for-like prices apply.

Apportionment of VAT

The fact that certain requirements must be met with respect to qualifying persons, the location of the enterprise, the overall period and the specific dates on which the concessions apply means that certain sales by qualifying persons may be entitled to the concessions, whereas other sales made by these persons may not. These persons will have to keep accurate records if SARS wishes to be certain that all VAT due to them is

collected and paid. Logistically, there are few existing measures enabling SARS to retain control over this process, which could leave to a loss of revenue.

There are no implications for input VAT deductions, as zero-rated supplies still qualify as taxable supplies. Thus, whether the goods are sold subject to 14% or 0% VAT, inputs are fully claimable, because they are used in the process of making taxable supplies. No apportionment rules are necessary.

4.3 INCOME TAX LEGISLATION

General taxation requirements

When applying the Gross Income definition, one would ordinarily include the income earned by FIFA, which is a non-resident, and all other entities in Gross Income, as the revenue will be earned from a South African source. This income would thus be taxable. The amended legislation specifically exempts the qualifying entities from being taxed on this income.

The general deduction formula

For category 1 entities, which qualify as 2010 FIFA World Cup exempt entities, expenditure which they incur will not be deducted as there will be no income against which to deduct the expenditure, the income being exempt. (Section 23(f) of the Income Tax Act, 1962.)

The income of qualifying individuals will not be subject to tax.

Section 12 of the Revenue RLAA (60/2006) states that ‘an amount received by or accrued to a person who is not a *resident of the Republic* is deemed not to be from a source in the *Republic* for purposes of the *Income Tax Act, 1962*, if that amount –

(a) is derived as a result of that person’s sponsoring or broadcasting of the *Championship*; and

(b) is received or accrued from any goods sold for foreign consumption or services rendered outside the *Republic*.

Section 7 of the RLAA, 2006 states that ‘*any receipt or accrual of an entity contemplated in paragraph 6 is excluded from gross income as defined in the Act*’.

This is to the extent that it is derived by a person from:

(a) Sale of any consumable or semi-durable goods; or

(b) Any service by that entity which is intrinsic to the staging of the championship enjoyed or partially utilized at a championship site.

This is only referring to goods and services rendered at a site as contemplated in the list of definitions.

Section 7(1) and 7(2) only applies to paragraph 6 entities which include commercial affiliates, licensees, host broadcaster, merchandising partner, FIFA designated service provider, concession operator, hospitality service provider and nominated FIFA flagship store operator – thus this includes logistics companies too for services rendered in staging the championship. For the rest of the paragraph 6 entities, refer to the list of references. These sections state that any receipt or accrual of an entity contemplated in paragraph 6 is excluded from “gross income” as defined in The Income Tax Act 1962.

Section 7(3) is only applicable to FIFA designated service providers (see list of references), selling goods and services directly connected to the championship and

within the parameters set for them which include FIFA sites (see list of references). This section states that any receipt or accrual of a FIFA Designated Service Provider is excluded from gross income to the extent that it is derived by that entity from the sale of any goods or rendering of services which are directly connected to the Championship.

This refers to FIFA partners as well, which includes companies such as Coca Cola, Adidas and Visa. FIFA partners enjoy the highest level of association with FIFA, which means they own rights to a broader range of FIFA activities for example exclusive marketing assets. FNB and Telkom on the other hand are part of the National supporters, which allows these local companies to promote an association with the 2010 FIFA World Cup within the host country. The rights include category exclusivity and domestic media exposure.

This means that revenue earned is not 'income' as defined. This would lead to a reduction in revenue for SARS, as there would be a reduction in what would have been a taxable income source were it not for the tax amendments.

As discussed above, only deductions for expenditure and losses actually incurred in the production of the income will be allowed. Sales outside the designation sites will be subject to normal income tax rules which mean that FIFA could be liable for tax if they engaged in sales outside the championship sites or beyond the championship period.

This raised another issue. When certain persons are exempted from paying income tax on a certain number of transactions because of supplies directly linked to the 2010 FIFA World Cup and/or in the designated sites, but this doesn't apply to all transactions of the same person, these persons are incurring expenditure partly for producing taxable income and partly for producing exempt income. This means that an

apportionment of deductions will have to be made (Section 23(f) of the Income Tax Act, 1962).

Several cases exist that result from discrepancies arising from the deduction of expenses allowed for income tax. These cases could lead to debates with FIFA and its associates.

In CIR vs. Allied Building Society a decision needed to be made on apportionment of a taxpayer's expenses between those incurred in the production of taxable income and those incurred in respect of non-productive properties i.e. properties that don't generate any income. The court held that, in cases dealing with apportionment, the objective is to reach fair and reasonable solutions, taking the applicable circumstances into account and that the onus to establish a fair and reasonable apportionment method would rest on the taxpayer.

SARS used a different approach to determine whether a deduction was allowable in ITC 1614, but the conclusion implies that SARS would seek to disallow deductions on the basis that the expenditure was not in the production of income or of capital nature. ITC 1614 held that the taxpayer traveled overseas to attend a refresher course and study new developments in his field and the question was whether the expenses were incurred in the production of income as envisaged in s 11(a) of Act 58 of 1962. The taxpayer spent six weeks touring overseas during which he spent four days visiting libraries in order to obtain material in his field. The outcome was that the taxpayer spent too little time, in proportion to the time span of the whole trip, on business. Thus the appellant did not prove that his expenses so incurred was for the purposes of trade.

The case law cited above is evidence that the accurate application of the tax legislation insofar as apportionment rules and the related required documentation would be greatly

facilitated if SARS were to communicate to all relevant parties before the 2010 FIFA World Cup.

Withholding tax

One of the benefits of the RLAA is that some entities, which would ordinarily have had to withhold tax for amounts that would have been paid by FIFA had it been subject to tax, will not need to withhold income tax on these amounts. However, this is applicable only to category 1 entities.

4.4 EMPLOYEES' TAX

An “employer” is required to deduct employee’s tax when they pay “remuneration” to an “employee” in terms of the Fourth Schedule of the Income Tax Act. Consequently, all employers in The Republic of South Africa are obliged to register for employee’s tax. As FIFA will not be required to do this, the provisions will not apply to anyone working for FIFA. These individuals will therefore have to register as provisional tax payers.

FIFA will not be required to register as an employer, which will save time and effort as far as registration administration and employees’ tax deduction calculations for the limited time period during which FIFA operates in The Republic of South Africa are concerned. Furthermore, non-resident employees of FIFA will not be subject to employees’ tax.

This corresponds with the other amendment to the Act, which states that qualifying non-resident employees will not be subject to tax. Paragraph 9 and paragraph 10 deals with this issue, stating that this person must be one of the following:

- (a) Member of the FIFA delegation
- (b) Championship referee or assistant referee
- (c) Official of any participating national association
- (d) FIFA confederation official
- (e) Media representative
- (f) Staff member of a commercial affiliate, merchandising partner, FIFA designated service provider or host broadcaster

This does not include any officials of SAFA, members of a team or any directors and staff members of the Local Organizing committee.

However if FIFA employed resident individuals, no employee's tax would be deducted from their earnings. As these individuals would not be exempt from tax because residents are taxed on worldwide income and SARS has granted authority to the contrary by including the exemptions in the 2010 FIFA World Cup legislation, they would be liable to pay tax in their own capacity in their annual assessment.

SARS has introduced a solution to this problem: FIFA will still be required to submit details of resident individuals whom they employ, and these individuals will be required to pay provisional tax. This will increase the administrative burden for both the individual taxpayers and for SARS as it will require more follow-up in terms of registration, collection of taxes and investigating whether these residents were all aware of the new legislation.

4.5 IMPORT TAXES (CUSTOMS AND EXCISE DUTIES)

The main difference between the current legislation and 2010 legislation is that some goods that would otherwise have been subject to duties will be free of customs and

excise duties in 2010 FIFA World Cup for example: a full rebate on importation of consumable or semi-durable goods like clothing, footwear as well as a full rebate on consumables imported not for sale but for consumption.

4.6 SUMMARISING THE TAXES

The differences discussed above are summarized in Table 1 below.

Table 1: Summary of the differences of the 2010 legislation

	INCOME TAX	
	Normal rules	2010 rules
Category 1 - FIFA	<p>General taxation requirements</p> <p>A non-resident entity is taxed on income from a source within the Republic or in terms of a DTA.</p> <p>Withholding taxes</p> <p>Withholding taxes to be paid in terms of S35.</p>	<p>General taxation requirements</p> <p>No permanent establishments. Exempt from all taxes and duties.</p> <p>Withholding taxes</p> <p>Not liable for withholding taxes on royalties.</p>
Category 2 - SAFA	<p>General taxation requirements</p> <p>Companies taxed at 28% on taxable income.</p>	<p>General taxation requirements</p> <p>Taxed at corporate rate of 28% on taxable income.</p>

	<p>Withholding taxes</p> <p>Withholding taxes to be paid in terms of S35.</p>	<p>Withholding taxes</p> <p>Withholding taxes to be paid in terms of S35</p>
<p>Category 2 – Entities affiliated with FIFA</p>	<p>General taxation requirements</p> <p>Taxed at 28% on taxable income</p> <p>Withholding taxes</p> <p>Withholding taxes to be paid in terms of S35.</p>	<p>General taxation requirements</p> <p>Qualifying income excluded from gross income.</p> <p>Withholding taxes</p> <p>Withholding taxes to be paid in terms of S35</p>
<p>Category 3 – Residents working for FIFA</p>	<p>General taxation requirements</p> <p>Resident individuals liable for employees’ tax.</p> <p>Withholding taxes</p> <p>Provisions of Unemployment Insurance Act and Skill Development Levy apply</p>	<p>General taxation requirements</p> <p>Individuals are provisional taxpayers and not registered for employees’ tax.</p> <p>Withholding taxes</p> <p>Provisions of Unemployment Insurance Act and Skill Development Levy still apply</p>
<p>Category 4 – Non-resident individuals</p>	<p>General taxation requirements</p> <p>A non-resident individual is taxed on The Republic of South Africa source income.</p> <p>Withholding taxes</p> <p>Sportspersons are subject to withholding tax at 15%.</p>	<p>General taxation requirements</p> <p>Qualifying income excluded from gross income.</p> <p>Withholding taxes</p> <p>Withholding tax of 15% still applies to sportspersons.</p>

	VAT	
	Normal rules	2010 rules
Category 1 - FIFA	VAT at 14% payable to SARS on goods and services (other than zero rated/exempt). Input tax is claimable.	Treated as diplomatic missions. Zero rates apply. May deduct input VAT on these sales.
Category 2 - SAFA	VAT at 14% on goods and services (other than zero rated/exempt supplies).	VAT at 14% on goods and services (other than zero rated/exempt).
Category 2 - Entities affiliated with FIFA	VAT at 14% on goods and services (other than zero rated/exempt supplies).	VAT at 0% on goods and services within championship sites. May deduct input VAT on these sales.
Category 3 - Resident individuals working for FIFA	Individuals are not liable for VAT unless required to be registered as vendors.	Individuals are not liable for VAT even if required to be in terms of the normal VAT legislation.
Category 4 - Non-resident individuals	Individuals are not liable for VAT unless required to be registered as vendors.	Individuals are not liable for VAT even if required to be in terms of the normal VAT legislation.
	EMPLOYEES' TAX	
Category 1 - FIFA	Required to register as employer if it employs resident individuals.	No requirement to register as employer or deduct employee's tax. Must comply with UIF and SDL provisions.
Category 2 - SAFA	Required to register as employer if it employs resident individuals.	Required to register as employer if it employs resident individuals.
Category 2 - Entities affiliated with FIFA	Required to register as employer if it employs resident individuals.	Required to register as employer if it employs resident individuals.

Category 3 – Resident individuals working for FIFA	Liabile for employees’ tax on salary earned.	As FIFA is not registered as an employer, no employees’ tax will be deducted from individuals’ salaries. These individuals will have to register as provisional taxpayers.
Category 4 – Non-resident individuals	Not required to register for employees’ tax but withholdings tax will be withheld by a resident.	Not required to register for employees’ tax but withholdings tax will be withheld by a resident.
CUSTOMS AND EXCISE DUTIES		
Category 1 - FIFA	Customs and excise duties on imports and exports to and from The Republic of South Africa.	Rebate items are duty free.
Category 2 – SAFA	Customs and excise duties on imports and exports to and from The Republic of South Africa.	Customs and excise duties on imports and exports to and from The Republic of South Africa.
Category 2 – Entities affiliated with FIFA	Customs and excise duties on imports and exports to and from The Republic of South Africa.	Rebate items are duty free.
Category 3 – Resident individuals working for FIFA	Customs and excise duties on imports and exports to and from The Republic of South Africa.	Customs and excise duties on imports and exports to and from The Republic of South Africa.
Category 4 – Non-resident individuals	Customs and excise duties on imports and exports to and from The Republic of South Africa.	Rebate items are duty free

In essence, additional taxes will be received owing to the general nature of the sporting event, as well as the additional income, investment and tourism that it will bring. These

taxes will be collected via normal income tax, employees' tax, provisional tax and, to a very limited extent, through VAT. On the other hand, several concessions will account for a decrease in some taxes. Overall it is envisaged that this event will yield R7.2 billion additional tax revenues (Gaffney, 2008).

4.7 ANALYSING REVENUE STREAMS FOR SARS

The FIFA World Cup legislation will result in additional inflows, outflows and forfeited revenue streams. It is estimated that SARS may forfeit approximately R3 billion in VAT owing to the zero-rating of FIFA merchandise sales (Gaffney, 2008:1). SARS will also forfeit income tax streams and customs and excise duties. These are set out below in Table 2.

Table 2: Revenue streams for SARS

Inflow	
Revenue Stream	Discussion
VAT	SARS will receive increased VAT from vendors (excluding FIFA and affiliates) resulting from tourist purchases.
Provisional Tax (Income Tax)	FIFA affiliates will have to register for provisional tax on any other goods and services sold outside the championship areas.
PAYE	The Soccer World Cup will generate jobs and residents will be subject to PAYE. SAFA officials and Local Organizing Committee members will be subject to normal tax provisions.
Withholding tax	Sports team members will be subject to 15% withholding tax for sports persons.

Air-passenger taxes	Air travel will result in increased air-passenger taxes.
Outflow	
VAT	Zero-rated supplies are still taxable supplies, so an input VAT claim on expenditure will be allowed for all expenditure incurred in supplying taxable goods and services. This will lead to cash refunds.
Forfeited revenue	
VAT	Zero rating of goods will result in forfeited revenue.
FIFA Exemption	FIFA has been exempt from all income tax in all circumstances.
Excise Duties	Exemptions from Customs and Excise results in forfeited revenue.
Non-residents working for FIFA and affiliated entities	These employees will not pay income tax.

4.8 CONCLUSION

The legislation is to be considered and each type of tax has different rules and exemptions relating to different parties. The overall impact on revenue for South Africa in the form of taxes is dependent on the tax type but overall, the tax concession given to FIFA has resulted in a larger revenue stream in that it was a precondition for hosting the World Cup.

5 CHAPTER 5: ANALYSING THE IMPACT OF THE 2010 WORLD CUP TAX LEGISLATION

5.1 INTRODUCTION

The experience gained from the Germany FIFA World Cup in 2006 provides a context for analyzing the potential risks and benefits for The Republic of South Africa (Meaning & Du Plessis, 2007:1) when they hosted the 2010 FIFA World Cup. As far as The Republic of South Africa is concerned, a careful analysis might be even more urgent to ensure the effective operation of the FIFA World Cup and all related sectors of the economy, owing to the countries minimal past experience in hosting such events.

Several benefits are expected to accrue to South Africa in 2010. These include increased “taxes, contribution GDP, employment creation, social upliftment, morale improvements...” (Grant Thornton, 2003:3). It will, however, be essential for SARS to co-ordinate the tax administration with respect to all the different revenue streams.

FIFA sets out numerous regulations for the organization of the event, which may have repercussions for the South African government’s objectives, including that of using the 2010 FIFA World Cup for development and nation-building purposes.

5.2 INTERNATIONAL COMPARISON

The effects of previous FIFA World Cups and similar events have not been fully disclosed or determined, such as the Japan/Korea 2002 FIFA World Cup (Gaffney, 2008). Research on these events shows various types of tax relief given by the host countries. In comparison, the tax relief to be provided by The Republic of South Africa and SARS appears to be more generous than that of the 2008 Beijing Olympic

Games, during which there were VAT and duty exemptions on imports and relief on goods sold by the Olympic Committee (Gaffney, 2008).

The Euro Soccer Championships held in 2008 provided a reduced VAT relief on ticket sales (Gaffney, 2008), but 2010 FIFA World Cup tickets will continue to attract VAT at the standard rate of 14% (2010 FIFA World Cup South Africa).

The London 2012 Olympic Games will provide some income and corporate tax relief (Gaffney, 2008) and exemptions for overseas individuals participating in the games (Baldwin, May 2006). The tax concessions for the 2012 Olympics will exempt the Local Organizing Committee of the Olympic Games from corporate tax, whereas The Republic of South Africa will have no concessions for SAFA or the Local Organizing Committee. The International Olympic Committee will also be exempt from corporate tax for the 2012 Olympics, much in the same way that FIFA is set to receive The Republic of South Africa tax exemption. Non-residents of the United Kingdom will not be taxed on their earnings. However, SARS has not exempted foreign team members from the withholding tax for sportspeople, as discussed above (Baldwin, March 2006).

The RLAA (20/2006) has established an anti-avoidance clause which addresses any abuse of the legislation. This is considered below.

5.3 ABUSE CLAUSE

In the RLAA (20/2006) Schedule 1, Section 106, Paragraph 16 states: “Where any person abuses one or more of the exemptions or concessions contemplated in this agreement by misrepresenting the purpose of an import, overstating sales within a tax-free bubble, understating purchases or expenses in respect of sales in a tax-free bubble

or by any other method, SARS may withdraw that person's entitlement to any of the exemptions and concessions, in consultation with FIFA." For example, it may happen that SARS only identify a misrepresentation after the World Cup of some or other entity, and thus can backlog the entity's transactions as to calculate the amount of tax outstanding.

Included in the Income Tax Act (58/1962) are anti-avoidance and tax abuse provisions. In the FIFA World Cup abuse clause, SARS has committed to consulting with FIFA before taking any action. This goes directly against SARS' legislative provisions regarding its discretion to institute proceedings in the event of possible tax evasion. In allowing FIFA to have some discretion in the application of the tax provisions, SARS has relinquished its sole right to prosecute tax evasion and this could result in parties not adhering to the provisions in all respects, which would ultimately lead to a decrease in revenue for SARS.

5.4 ADMINISTRATION CONSIDERATIONS

The tax-free bubble concession will vary according to different categories of the FIFA-designated sites, e.g. stadia, training sites and public viewing sites.

Another administrative factor to consider is the specific requirements which must be met before the concessions apply. The concessions will apply on match days only, in certain areas only and with application only to certain qualifying individuals. When it comes to FIFA flagship stores, the bubble will be effective for six months before the 2009 Confederations Cup and will end one month after the closing ceremony of the 2010 FIFA World Cup. (Lume, N)

SARS will have to establish proper mechanisms to monitor adherence to all the requirements and to enforce corrective action in the event of contraventions. The anticipated volume of transactions will increase the administrative burden on SARS.

Expenses incurred in the production of exempt income will not all be permitted as deductions for income tax purposes – a reasonable allocation of expenses attributable to the exempt sales must be made.

The benefits of the proposed legislation should be measured against the disadvantages, and proper planning in advance should help reduce costs and maximize collection of the taxable income.

As part of the normal tax collection process, SARS has established teams to oversee the collection of taxes and has implemented standard operating procedures. Specifically for 2010, SARS has put in place special teams to address all the administrative procedures and has extended its standard operating procedures, which will cover the administration and collection of taxes for 2010 administration. These are all communicated transparently and the information has been made available on the SARS website (www.sars.gov.za).

Consideration must be given to the new provisional taxpayers registered. This will be a burden on the taxpayers because they have to submit IRP 6 forms twice a year and this can become a problem when SARS wants to follow up returns not submitted for provisional taxpayers not present in The Republic of South Africa.

SARS have also made improvements on their call centre by giving more options to choose from when phoning in and specifically options with regards to queries around

tax in the FIFA soccer world cup, and so making it easier for the public to get help from specialist in this field.

5.5 BENEFITS OF WINNING THE FIFA WORLD CUP BID

The Republic of South Africa was successful in its bid for the FIFA World cup after agreeing to conditions put forth by FIFA. These included guarantees to the organization in several areas, including tax concessions. The amendments to the tax legislation are part of the government's commitment to hosting the FIFA World Cup.

Events like the FIFA World Cup provide extensive media coverage, wide-reaching spectatorship and increased sales of memorabilia, which, together, have immense revenue potential (Cornelissen & Kamilla, 2006). As a result of winning the bid, The Republic of South Africa will benefit from international exposure in social, recreational and financial markets owing to increased tourism, media coverage of the FIFA World Cup and international investors. This will assist South African economic development in the times leading up to and after the FIFA World Cup, especially focusing on the street markets selling almost just memorabilia.

The income tax, excise duties and VAT rules allow for FIFA to increase investment in the country without being taxed for it, which will benefit the general population. Broadcasters will bring in goods free of tax, thus promoting increased international exposure through media coverage.

In the long term, the anticipated indirect benefits for SARS post 2010 FIFA World Cup 2010 will be increased economic activity resulting in increased revenue for it in the form of income taxes, capital gains taxes and import duties. If this is handled

successfully it might also help to contribute to being a host for other sport events too as the 2020 Olympic Games for which SA decided to put in a bid.

The exemption and benefits received by FIFA and affiliated entities means that the funding ordinarily collected by SARS for government spending and operations will have to be obtained elsewhere. Taxpayers therefore partially fund the FIFA World Cup. This is confirmed in a written response from the National Assembly (National Assembly, 2004) stating that no specific additional tax measures are envisaged to cover costs associated with SA hosting the 2010 FIFA World Cup. However, it is estimated that this event will yield R7.2 billion additional tax revenues (Gaffney, 2008). This increase can be attributed to tourists, increased local spending and taxes on individuals, such as team members.

The general, the relief offered by SARS seems in some respects to be more generous when compared with other international events.

5.6 PLAYERS IN THE TOURNAMENT

All 736 soccer players participating in the tournament, and big international stars such as Shakira and R Kelly who performed at World Cup events, needed to “donate” 15% of their tournament earnings to the South African Revenue Services according to The Times. SARS spokesperson Adrian Lackay said: ‘The process was implemented years ago whereby performing artists, musicians, sportspersons or actors who carry out their trade in this country are taxed accordingly.’ (Lackay, A) However, FIFA will not be making any contributions to SARS, notes the report. As part of the guarantees insisted on by the world soccer body in order for SA to host the World Cup, SARS was not allowed to tax any of FIFA’s profits, or those made by its subsidiaries, such as hospitality arm Match (Legalbrief, 13 July 2010)

5.7 REDUCTION IN ADMINISTRATION ON CONSUMER WITH REGARDS TO EXPORTATION OF GOODS

Export goods are zero-rated in terms of section 11(1) of the VAT Act if they relate to goods exported directly from The Republic of South Africa to an address in a foreign country. The Act states that, where a rate of zero per cent has been applied by any vendor under a provision of this section of section 13(1) (ii), the vendor shall obtain and retain such documentary proof substantiating the vendor's entitlement to apply the said rate under those provisions as is acceptable to the Commissioner.

Current VAT legislation allows for VAT on indirect exports, which are items purchased in The Republic of South Africa but not immediately consumed here, being taken to other countries to be claimed by non-residents on goods acquired by them. The refund is collected when leaving the country at the airport and other departure points or refunded by post. To claim a refund, the VAT Act requires a tourist to do the following: Obtain an original tax invoice where the cost of the goods in Rand and the amount of VAT charged or a clear statement that the price includes VAT, together with a VAT refund control sheet (VAT 255) obtainable at international airports. On leaving SA, all documents (including a foreign passport), and the goods in question must be presented to one of the VAT Refund Administration Offices or Customs Offices situated in airports, harbors and at border posts. VAT refunds will be made only if the total value of the items in question exceeds R250.

The amendments for the 2010 FIFA World Cup imply that goods purchased by tourists that qualify as zero-rated, i.e. purchased at the designated sites, to be taken overseas will not include VAT, even though they cost less than R250. As no VAT will have been paid on these, these individuals will not have to go through the process and administration of claiming the VAT. Furthermore, the vendor will not have to retain any formal documentation as the zero-rating will automatically be applicable.

However, to reiterate, this will apply only to goods sold by qualifying individuals or at championship sites. This means that if non-residents buy other goods in SA, they will still have to request refunds at the airport following the above procedure.

5.8 PROMOTE TOURISM AND SMALL BUSINESS

According to government publications, it is envisaged that the 2010 FIFA World Cup will contribute an estimated R51.1 billion to The Republic Of South Africa's Gross Domestic Product (GDP) between 2006 and 2010 (2010 FIFA World Cup South Africa).

The reduction in VAT charged will make goods appear cheaper, which is expected to result in increased expenditure on the part of tourists. Mthembu (in *SJ&A*, 2007:1) says that SAFA will have to implement a fair, transparent and equitable system to ensure that emerging businesses also enjoy the tax benefits.

If the anticipated benefits are not tracked properly, the more significant portion will accrue to the foreign service-providers temporarily assisting FIFA in SA. Further, the hospitality industry stands to benefit from the tax concessions for service providers (Wilson, 2008:1).

A positive outcome was that after two years of losses the global airline industry has recovered to pre recession categories, with African-airlines reporting a strong rise of 16.9% in passenger demand in May 2010 – which is likely to be boosted with tourist flying around in SA during the world cup (Business report, 2 July 2010)

5.9 GENERAL REQUIREMENTS SET OUT IN THE RLAA

The RLAA (20/2006) sets definite requirements in terms of parties, periods, venues, dates and goods. Tracking these could prove challenging and SARS will have to rely on the integrity of all the parties concerned. Any possible disputes could prove costly and cases may be difficult to prove because of the numerous areas of compliance. For instance, the rules do not apply to tobacco, cosmetics and alcohol consumed on-site as per the RLAA (20/2006). The question thus arises as to how SARS is going to control this.

Moreover, the goods to which the amendments apply are 'consumable or semi-durable' goods imported by qualifying persons for sale at any site only during the Championship which is an additional aspect for which SARS will have to take control over.

5.10 EXEMPTION: IMPORT DUTY

Goods imported into the Republic by qualifying persons for the purposes of the 2010 FIFA World Cup will not be subject to import taxes like customs duty and will not attract VAT for the duration of the championships. Businesses will have to anticipate their demand carefully in order to ensure that the supply of imported products does not exceed the demand, remembering the rule that vendors will have to pay previously-exempt VAT and customs duty if the goods are not sold within a pre-determined period of time (Mthembu, 2007, in *SJ&A*, 2007). Aspects of the South African environment, for instance, crime, the economy, tourism and exchange rates will all affect the popularity of SA as a destination for tourists and spectators for the FIFA World Cup.

This is already supported by the fact that SARS officials had on 4 June 2010 detained an estimated R 10 million FIFA related gear to which the owners didn't have the required import documentation (SARS official website – News, 2 July 2010)

5.11 SA MORALE

The 2010 FIFA Soccer World Cup has possibly made South Africans see the light in the sense that we can be proud of calling this our country and experience a sense of standing together as one. The fact that SA has managed to host it successfully and the amount of consideration practiced by employers, giving their employees free soccer t-shirts etc. all contributed to the morale being lifted. SARS has awarded and encouraged this by making the free soccer t-shirts etc a tax-free fringe benefit to the amount of R 750 per employee because the goods were given to them in good faith and it would be a disadvantage to subject such supportive gestures to tax (Lackay, 2010, in Business day, 30 June 2010). This is confirmed by the RLAA no7, 2010 paragraph 126 (Insertion of paragraph 17 in Schedule 1 to Act 20 of 2006) where it is determined that any clothing, other goods or match tickets related to 2010 FIFA World Cup South Africa supplied to an employee on or before 11 July 2010, to the extent that the aggregate of the cash equivalent of the value of the clothing, other goods or match tickets does not exceed an amount of R 750 in respect of the employee.

According to Danny Jordaan – CEO of the 2010 Local Organizing Committee – because of the fact that the quarter finals, semi-finals and the finals are being played at the biggest stadiums in the country it is possible that we will top the three million fan-park attendance mark which will be highest figure since the record-breaking 1994 World cup held in the United States (Jordaan, SARS official website, Project 2010, July 2010)

On the other side there are also people who feel that SA government could have accomplished much more with the money than spending it on 2010 FIFA World Cup tickets. According to a Beeld newspaper article the total amount already spend on world cup tickets by government departments is R 48 million, which they could have rather used for building 900 new RDP houses and given 372 teachers new positions at schools – this will gather to the same amount.(Peyper, Beeld newspaper, July 2010)

But on 21 April 2010 Grant Thornton released an exciting article about post-recession figures which concluded to the following (Saunders, Grant Thornton, 21 April 2010):

- Although the number of anticipated world cup visitors dropped from 483 000 to 373 000 it is expected that many of the visitors will stay longer and thus spend more.
- There are indications that tourist will stay an average of 18 days, compared to the 14 days used in the original projection and that the average spending per tourist per trip are up to R 30 200, compared to R 22 000 used in the original projection.
- Foreign world cup visitors are expected to attend 5 matches, instead of 3.4 projected. This in itself is already an accomplishment compared to the 2006 Germany world cup where the average matches attended by a foreign visitor was just 2.6. And because of attending more matches, they will stay longer and thus spend more.
- The Gross economic impact will be 93 billion, with 62% expected to be generated pre-2010 and the rest during the course of the current year.

5.12 SA HOSTING SIMILAR EVENTS

“For our eyes to be on 2020, we are not weary, because we have the facilities” was President Zuma’s comment on Sport 24. On 13 July SACOC (The South African Governing Olympic body) decided that The Republic Of South Africa is going to bid for hosting the 2020 Olympic Games with Cape Town, Durban, Johannesburg and Pretoria as possible bid cities. This was announced by Tubby Reddy, the CEO of

SASCO after President Jacob Zuma declared the 2010 FIFA world cup a success and expressed confidence to do a similar excellent job in 2020. What also counts in SA favor is the huge amount of improvements that was made by building bigger stadiums, boosting the public transport sector and the upgraded airports. The host city will be announced in Buenos Aires, Argentina in mid 2013 (Wikipedia). Plus with Rio's 2016 award, Africa is the only populated continent which has never hosted the games (Wikipedia). Thus could all the tax advantages, disadvantages and administration implication be revised and be improved for future events, making this a very valuable exercise and a real importance to learn from for future benefit.

5.13 CONCLUSION

The tax legislation promulgated in 2006 was a pre-requisite for the successful bid for hosting the FIFA World Cup. The ultimate benefit of the World Cup extends beyond tax revenues and includes an inflow of tourism, improved infrastructure and improved morale of the South African population.

6 CHAPTER 6: RESEARCH DESIGN AND METHODS

6.1 INTRODUCTION

This dissertation seeks to clarify the categories of taxes and persons to which the various taxation provisions related to the 2010 FIFA World Cup apply and to reveal the link between the legislation and the provisions made according to the RLAA (20/2006).

6.2 DESCRIPTION OF OVERALL RESEARCH DESIGN

This is a conceptual analysis of the meaning of the words and concepts used in the sections of the RLAA (20/2006) which were introduced to provide the necessary guarantees to FIFA. The study elaborates on different aspects of the legislation introduced and analysis of the implications from the points of view of taxation, finance and administration.

A philosophical approach is used to analyze arguments in favor of and against the new legislation by highlighting the benefits and disadvantages.

7 OVERALL CONCLUSION

The amendments introduced to the tax legislation to ensure the guarantees to FIFA, will affect all the parties involved in hosting, participating, arranging and running the 2010 FIFA World Cup.

It can be concluded that, with adequate monitoring by SARS and the implementation of documented processes and controls, it will contribute to the successful hosting of the 2010 FIFA World Cup.

Familiarity with the implications of the RLAA by all involved is a key to a successful operation from the taxation perspective. Any revenue SARS expects to forfeit as a result of the implementation of the legislation will hopefully be compensated by the benefits brought by the 2010 FIFA World Cup, including increased investment in The Republic of South Africa, increased tourism and growth in the South African economy.

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