
COMPANY TAX POLICY

1. INTRODUCTION

More than 80% of the expenses of Qmuzik are salary related, which makes this the main risk the company faces from a tax point of view.

Although the company is subject to all tax laws this policy is aimed at identifying the various tax legislation that apply to the business of Qmuzik from time to time in order to ensure compliance, and as far as employees tax are concerned to define a policy on how the company will remunerate employees within the confines of the law. This document needs to be read together with the Qmuzik conditions of service and the appropriate tax legislation.

The following areas will be covered:

- Employee's tax.
- VAT as it applies to the business of Qmuzik.
- Income Tax as it applies to the business of Qmuzik.

2. EMPLOYEES TAX

The Conditions of Service of Qmuzik set out the broad guidelines relating to important policy matters covering employment and remuneration. In addition to this the company has a remuneration committee which deals with remuneration matters and is also responsible to ensure compliance. The company also has an integrated HR and payroll system that is relied upon to ensure adherence to and consistency in applying the policies and processes of Qmuzik.

2.1. Remuneration

Remuneration of employees is done on a cost to company basis, and may include a cash portion, overtime as well as allowances. The package takes into account all direct cost of employment but excludes UIF contributions, COID insurance premiums and other statutory charges such as Skills Development Levies. The package also excludes group life contributions. Membership to Medical aid and provident / retirement funds are for the employees account. The company operates various performance based bonus schemes.

2.2. Cash remuneration

Cash remuneration consists of basic salary (code 3601), project allowances (code 3601), overtime (code 3607) and performance based payments, which can either be a project bonus (code 3601) or a profit share bonus (code 3605). Should directors fees be paid, this will be recorded separately (code 3615). All such payments are fully subject to PAYE.

2.3. Travelling

The structuring of travel allowances is decided by the remuneration committee at least annually when increases are given, but adjustments may be made more often as circumstances require.

2.3.1. Travel (car) allowance

The remuneration committee will decide on the travel allowance to be given to each employee taking into account the expected business expense, (code 3701). In deciding on the travel allowance the following factors will be considered:

- Is the employee office bound or is there also travel for business purposes.
- The quantum of expected costs for business kilometres to be travelled.
- 400 kilometres per month not claimable as reimbursable, as well as the reimbursable travel allowance needs to be taken into account.

Working papers of the Remuneration Committee needs to be retained. Sixty percent of the travel allowance is subject to PAYE.

2.3.2. Reimbursable Travel Allowance

A reimbursable travel allowance per the amount that the Receiver publishes from time to time (currently 246 cents per kilometre) is paid to employees for business purposes in excess of 400 kilometres per month. Two categories are identified:

- Where no travel (car) allowance is given, and less than 8000 kilometres are claimed at the official rate it will be declared as non taxable (code 3703). If the amount exceeds 8000 kilometres the total kilometres will have to be declared, and tax will have to be deducted (code 3702). Because of the PAYE effect on exceeding 8000 kilometres in a particular month, this needs to be considered very carefully beforehand.
- Where a car allowance is given (code 3701), all reimbursable payments will be declared and PAYE will be deducted (code 3702).

Note: Employees will claim against the total allowance received (code 3701 and 3702) when submitting their returns, either under the deemed or actual kilometres travelled for business purposes based on the amounts allowed by the Receiver, or actual expenses and actual kilometres travelled.

2.3.3. Company car scheme

This is under consideration, but not yet effective.

2.4. Subsistence

Subsistence allowances will not be paid in advance as part of structured remuneration, as this is too difficult to anticipate.

2.4.1. Local travel

As far as reimbursements for local travel are concerned a number of options can be identified:

- The employee receives the daily allowance as determined by the Receiver from time to time (currently R208.00) or less and pays for meals and incidental expenses. This is a cost allowance and is reflected as non-taxable (code 3705).
- Actual expenses are claimed with no allowance. This is recorded as a company expense and not reflected on the IRP5.
- Where the client pays an amount higher than the amounts allowed by the Receiver, and this is passed on to the employee, the total amount less the allowance as determined by the Receiver is reflected as income (code 3704), and the Receiver allows the allowance as non-taxable (code 3705). Also refer the note below.

Note: In cases where the employee pays for accommodation also under the last scenario, he will be able to claim the cost of accommodation when submitting his return, or if it can be proved to Qmuzik by way of documentary proof that accommodation has been paid, such an amount will be moved to non taxable (code 3705). Also note that deemed amounts allowed by the Receiver is limited to actual where lower amounts were paid by Qmuzik.

2.4.2. Foreign travel

Foreign travel is subject to Qmuzik policy, but with daily allowances way below what the Receiver allows, currently USD75 maximum against USD 200 allowed, these amounts will be reflected as a cost allowance (code 3716).

2.4.3. Entertainment allowance

No entertainment allowances are given. Actual approved expenses will be reimbursed to employees.

2.5. Business tools

With employees out in the field and/or expected to be available after hours for support the Remuneration Committee decides what each individual needs to perform his duties. The following are currently considered:

2.5.1. Cell Phones and connectivity

All employees regularly or permanently off site will receive a company cell phone, 3g card, or an allowance of R250 per month to obtain these to ensure connectivity to systems and personnel at Qmuzik as well as to clients during and after hours. The decision will be made by the Remuneration Committee and is not negotiable. The use of company devices is for company purposes and private use is incidental. Where an allowance is paid this will be shown as an allowance and PAYE will be deducted (code 3712).

Note: *In the case of an allowance the employee will be able to claim business calls when submitting his return.*

2.5.2. Computers

Computers are essential to perform the duties of the company and where provided will be a company asset with no taxable benefit. Where computers are rented from employees this will be done by written agreement between the company and the employee. No computer allowances will be paid.

Note: *There is an obligation on the employee to declare rental income in his annual return, but the cost of providing the computer can be claimed.*

2.5.3. Working space

This is under consideration, but not yet effective.

2.6. Retirement benefits

As the company does not offer retirement benefits, no deductions can be made, even if payments are made on behalf of the employee.

Note: *An individual's contributions to an approved retirement annuity fund are tax deductible to a maximum of 15% of such individual's non – retirement income. Qmuzik, upon receiving such information from the employee will take such tax deduction into account in calculating the monthly PAYE liability. This should be disclosed on the IRP certificate (code 4006)*

2.7. Medical benefits

Although the company does not offer medical benefits, payments can be made on behalf of employees to medical schemes (code 4005). Tax deductions up to the capped amount can be made in calculation of the monthly PAYE, (code 4025). The capped amount also needs to be disclosed in this case, (code 4486).

Note: *Tax deductions will only be made when requested by the employee.*

2.8. Group life

An unapproved group scheme provides death and disability benefits to employees.

This represents a taxable benefit to the employee and is therefore subject to PAYE (code 3808).

3. VALUE ADDED TAX

The policy provides the financial guidelines as specified by the Act that is applicable when Qmuzik wants to institute a claim for VAT, and the creation of invoices. It is based on the circumstances within Qmuzik and therefore concentrates on how the Act impacts on Qmuzik. Basic concepts around VAT, such as output tax, input tax, taxable purveyances and exempt purveyances are in common usage at Qmuzik.

These concepts are explained briefly for the sake of completeness:

Output tax

Output tax is the tax levied when Qmuzik provides taxable purveyances (VAT on sales).

Input tax

Input tax is the tax levied with regard to goods and services purchased for providing taxable purveyances (VAT on purchases).

3.1. Method used to account for VAT

Qmuzik accounts for VAT on the invoice (or accrual) basis. Under this method of accounting, the company accounts for the full amount of VAT included in the price of services supplied in the tax period in which the **time of supply** has occurred. This applies to the output tax liability on credit sales as well as the input tax that may be claimed on credit purchases.

According to the **general time of supply rule**, a supply occurs at the **earlier of** the following events:

- At the time that an invoice is issued, or
- At the time any payment is received by the supplier

Note: Section 9 of the VAT Act also contains special time of supply rules. Where a special rule applies, the general rule will not apply. In the case of Qmuzik these are rental agreements, fixed property, etc.

3.2. Taxable purveyances at standard rate

The provision of goods and services is taxable at the standard VAT rate and input tax can be set off against output tax. In practice, the provision of goods and services generally is taxable. All payments to the Receiver normally comprise the full 14% VAT on a specific taxable income.

3.3. Reclaiming VAT

At least three types of tax invoices are applicable for reclaiming VAT. Each type has its own requirements that have to be met by the tax invoice before VAT can be reclaimed.

Invoices for amounts larger than R3 000.00 (inclusive of VAT)

The following information has to appear on the invoice:

- that it is a tax invoice
- the supplier's name, address and VAT registration number
- the name, address and VAT registration number of the purchaser
- the invoice number and date
- a description of the services/goods, as well as the quantity
- the value of the services/goods and the tax requested

Invoices for amounts smaller than R3 000.00 (inclusive of VAT)

When the total amount of the invoice including VAT does not exceed R3 000.00, the abovementioned remains applicable. It is not necessary, however, to show the supplier's address, the receiver's name and VAT registration number or the quantity of the services/goods.

Situations in which the total amount inclusive of VAT is smaller than R50.00 for which it is not necessary to generate an invoice

When the total amount inclusive of VAT does not add up to R50.00, it is not necessary to generate an invoice. Any buyer who wants to claim VAT has to provide evidence of purchase of the fact that VAT was levied. It is important to indicate the name of the supplier and the fact that VAT was levied on the invoice.

3.4. VAT that can be levied when invoices are generated

All outside works, consultation and services provided by Qmuzik have to be invoiced via the debtor system. All invoices generated must be approved by the project manager on whose project the invoice is generated, or by the head of department/executive head/discipline head. The person who generates the invoice has to ensure that the invoice is generated against the correct income account. If there is any doubt about the correct income account, the financial manager/financial director should be contacted.

Invoices may not be generated on Qmuzik letterheads or by means of computer programmes.

The debtors system must at all times be used for the generation of invoices.

When prices are quoted for goods and services, the quotations related to taxable deliveries must make allowance for VAT.

No income may be recorded against an expense account.

3.5. Exempt deliveries

The provision of some goods and services is exempt from VAT. Input tax with regard to such purchases is not reclaimable. In the case of Qmuzik this will include:

- goods or services acquired for purposes of entertainment – see below;
- membership fees or subscriptions of clubs, associations or societies of a sporting, social or recreational nature;
- the acquisition of a motor car by a vendor (who is not a motor car dealer or car rental enterprise); and goods or services acquired by medical schemes or benefit funds for the purposes of health insurance or benefit cover.
- Educational services and donations, for instance, are exempt from VAT.

3.5.1. Entertainment

Common examples of the company's entertainment expenses are as follows:-

- staff refreshments such as tea, coffee and other beverages and snacks;
- food and other ingredients purchased in order to provide meals to staff, clients and business associates;
- business lunches and dinners;
- catering services acquired for staff canteens and dining rooms where the direct and indirect costs of providing the meals are not covered by the price charged;
- equipment and utensils used in kitchens;
- furniture and other equipment and utensils used in canteens and dining rooms;
- Christmas lunches and parties, including the hire of venues;
- golf days for customers and clients;
- beverages, meals and other hospitality and entertainment supplied to customers and clients at product launches and other promotional events;
- entertainment of customers and clients in restaurants, theatres and night clubs.

(The above list is not exhaustive; it merely indicates some examples and the scope of the term "entertainment").

3.5.1.1. Exceptions:

In the following circumstances, input tax relating to entertainment expenses incurred may be claimed:

Personal subsistence for employees – only where the employees incur expenditure on personal subsistence on behalf of the company and the actual expenditure is reimbursed. It is a condition for the claim that the employee ***must be away on business from his/her normal place of work and residence for at least one night***. Where an allowance is paid to the employee for this expense, no input tax credit will be allowed.

3.5.2. Subscriptions or membership fees

The VAT incurred on subscriptions to magazines and trade journals that are related in a direct manner to the nature of the business carried on by Qmuzik may be claimed.

3.6 Zero rated services

3.6.1. VAT on exportation of services

Services rendered outside RSA are charged with VAT at 0%.

In the case of Qmuzik the following will present zero-rated services:

- International transportation of passengers or goods either to the RSA from an export country, or from the RSA to any export country, or between 2 countries outside RSA.
- Services physically rendered outside RSA. NB: Services rendered to another country from within South Africa will attract VAT at 14%.
- Certain services supplied to a non-resident who is outside the Republic at the time the services are rendered.
- Patents and other intellectual property for use outside the Republic.
- "Transfer payments" received from Government Departments (legislation on this aspect may change the treatment in the near future).

(**Note:** The above supplies are only zero-rated if the company retains the proper documentation to justify the application of the zero rate).

3.6.2. VAT on importation of services

No VAT is paid on the importation of services.

Imported services are:

- a supply of services;
- made by a supplier who is not a resident of the Republic or who carries on a business outside the Republic;
- to a recipient who is a resident of the Republic;
- to the extent that the services are utilized or consumed in the Republic otherwise than for making **taxable supplies e.g.**

This implies that VAT will only be paid by Qmuzik on services which are imported when:

- utilising the services wholly or partially for exempt supplies by Qmuzik ; or
- utilising the services for private purposes (i.e. not for taxable supplies).

4. INCOME TAX

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Income tax is far too broad a subject to capture in a policy document as every year will induce its own new tax requirements. Only the specific items which are expected to present themselves from year to year, and which will require an adjustment from the accounting figures as reported will be addressed in this document.

4.1. Development costs

Two broad categories of development costs can be identified, namely ongoing development and specific development of new solutions that are capitalised in the books of Qmuzik. For income tax purposes all development costs are written down in the year during which it is incurred, whilst capitalised costs are written down over a five year period. Therefore an adjustment needs to be made every year to account for this.

4.2. IFRS

Qmuzik is IFRS compliant.