

**A TREATMENT FOR THE FISCAL DEFICIT: TAXATION OF CUSTOMER LOYALTY
PROGRAMMES IN THE RETAIL PHARMACEUTICAL INDUSTRY**

by

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ABSTRACT

South Africa is in need of additional sources of tax revenue to alleviate the government deficit, to stabilise public debt and to restore the public finances of South Africa. This is as a result of the South African government consistently spending more than they have received in tax revenues in recent years (Godongwana, 2021:10). Recent research has been conducted which indicates that the taxation of Customer Loyalty Programme rewards in the hands of the customers is a potential source of revenue for the *fiscus*. This is as a result of the providers of the Customer Loyalty Programmes being able to deduct their expenditure incurred to operate the Customer Loyalty Programmes for tax purposes. However, customers are not being taxed when rewards are being earned by them. The purpose of this study is to quantify the potential tax revenue from taxing Clicks ClubCard Loyalty Programme rewards awarded to customers. This study forms part of a larger study that calculates the potential tax revenue from four different Customer Loyalty Programmes.

In order to achieve the purpose of this study, a methodological approach known as a qualitative multiple longitudinal instrumental case study analysis was followed in the larger study, however a single case study analysis was performed in this study. The multiple case study approach was used in the larger study to analyse the potential tax revenues from four Customer Loyalty Programmes that met the definition of a Customer Loyalty Programme for the purposes of the study, whereas a single case study approach was used in this study to only analyse the tax revenue from the Clicks ClubCard Customer Loyalty Programme. A longitudinal design was applied to quantify the potential tax revenues in this study and the larger study, from 2018 to 2021 at a flat rate of withholding of 25% which constitutes a prepayment of the customer's normal tax liability.

The potential tax revenues in each of the respective years were as follows: R119 592 805 in 2018, R129 252 845 in 2019, R142 835 087 in 2020 and R159 320 801 in 2021. In total, over the four years a total of R551 001 538 could have been collected had the Clicks ClubCard Loyalty Programme rewards been taxed. Therefore, given the fact that this substantial amount is the potential tax revenue from one Customer Loyalty Programme only, it is evident that the taxation of Customer Loyalty Programmes could be a significant additional source of revenue for the *fiscus* that could help to stabilise public debt and to restore the public finances of South Africa.

Keywords:

Customer Loyalty Programmes, Rewards, Tax, IFRS 15, Tax Base, South Africa, Withholding tax, Clicks ClubCard.

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LIST OF ABBREVIATIONS

CLP	Customer Loyalty Programme
SARS	South African Revenue Service
VAT	Value-Added Tax
CPA	Consumer Protection Act
App	Application

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

This study forms part of a larger study, entitled “Quantifying the loss of tax revenue by customer loyalty programmes in South Africa”. The purpose of the larger study is to quantify the potential tax revenue that could be collected if rewards from customer loyalty programmes are taxed. This study focuses on the quantification of the potential tax revenue on rewards from the Clicks ClubCard Loyalty Programme, therefore focusing on the retail pharmaceutical industry and specifically the customer loyalty programme offered by Clicks. Furthermore, this study will be limited to the first four research objectives of the larger study.

1.2 BACKGROUND FOR THE STUDY

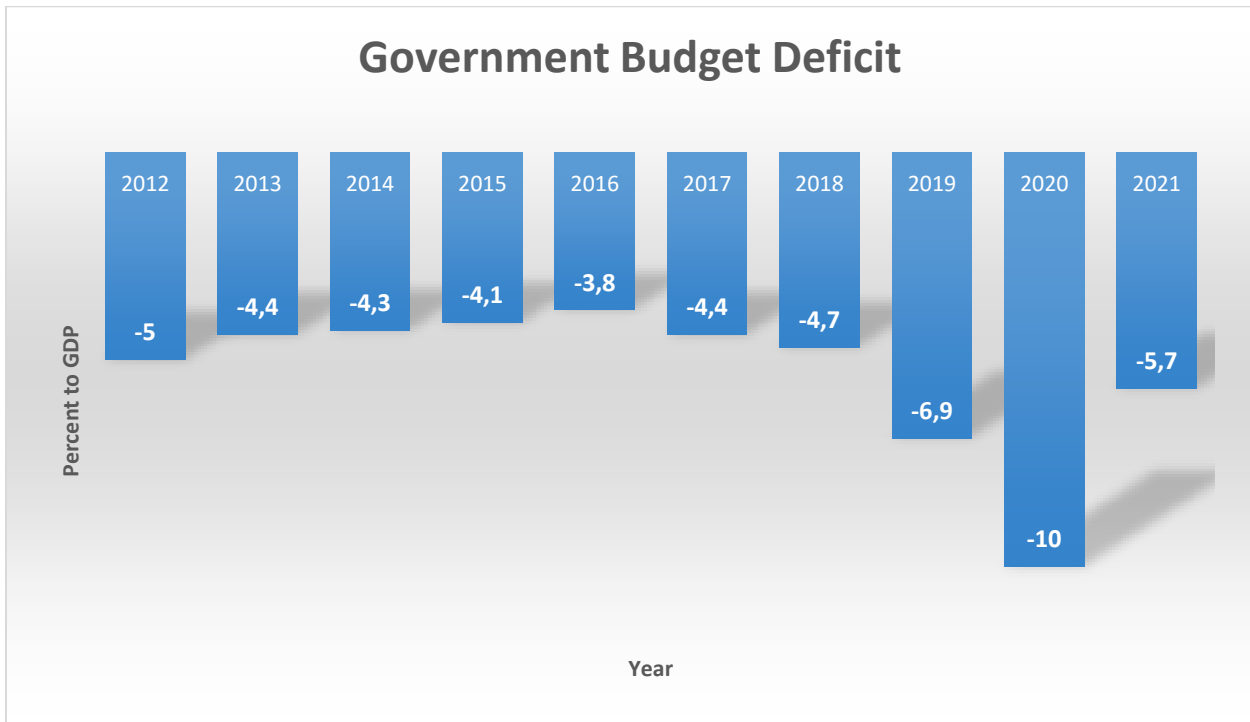
Customer Loyalty Programmes (CLPs) are reward systems that provide rewards to customers to incentivise them to remain loyal to the business providing the CLP (Breugelmans, Bijmolt, Zhang, Basso, Dorotic, Kopalle, Minnema, Mijnlief & Wunderlich, 2015:128; Pidduck, Odendaal, Kirsten, Pleace & De Winnaar, 2019:626; Swanepoel & Pidduck, 2020:76). These rewards can be either financial or non-financial rewards (Breugelmans *et al.*, 2015:129). Businesses also use CLPs as they allow them to track and influence customer decisions (Breugelmans *et al.*, 2015:128). In addition to the rewards that they receive, customers utilise CLPs because they enhance and personalise their experiences, save them time and provide flexible and accessible purchasing and reward options (Burnstone & Olivier, 2018:4). As a result of the benefits for both businesses and customers, CLPs have become prevalent across a broad range of industries across the globe (Burnstone & Olivier, 2018:3; Pidduck *et al.*, 2019:626). In 2021 alone, CLPs were used by 74% of economically active South Africans and have increased in popularity in recent years (Cromhout, 2021:5).

The prevalence of CLPs is also indicative of a change in the nature of the economic transactions occurring between business and customers in South Africa. Interestingly, research indicates that there has been no corresponding change in how these transactions are taxed (Odendaal & Pidduck, 2014:10; Pidduck & Odendaal, 2013b:1521; Pidduck *et al.*, 2019:627; Swanepoel & Pidduck, 2020:76-77). In general, the South African tax system provides the tax revenue to fund the expenditure incurred by the South African government

(National Treasury, 2021:57). Therefore, the taxation of the CLP rewards in the hands of customers should increase tax revenues in South Africa. Increasing tax revenues is critical as the South African government is in dire need of additional sources of tax revenues as they have consistently spent more than they have received in tax revenues in recent years (Godongwana, 2021:10). Furthermore, it is acknowledged that the South African government is in need of additional tax revenue resulting from the damage caused by the COVID-19 pandemic which has caused severe disruptions to economies all over the world (Godongwana, 2021:3).

The projected 2020/21 tax collection shortfall was expected to be the largest on record (National Treasury, 2021:3). According to the South African Revenue Service (SARS), the actual tax collections for the 2020/2021 fiscal year represented a contraction of 7.8% from the 2019/20 fiscal year. On the other hand, the budget deficit is expected to reach 5,7% of GDP in the 2021/2022 year, in comparison to the 7,8% that was budgeted (National Treasury, 2022b:17). This upsurge in government spending is expected to increase globally in the short term and the focus on tax revenues is inherently becoming even more important (OECD, 2021:5). Consequently, the public finances of South Africa are dangerously overstretched, and the borrowing requirement of National Treasury is expected to remain above R500 billion per year in the medium term, leading the gross loan debt to increase from R3.95 trillion in the 2020/21 fiscal year to R5.2 trillion in 2023/24 (National Treasury, 2021:9). The real GDP growth is projected to be 2.1% for 2022 (National Treasury, 2022a:5). Figure 1 below depicts the government deficit over time and indicates that it is a growing cause for concern for South Africa.

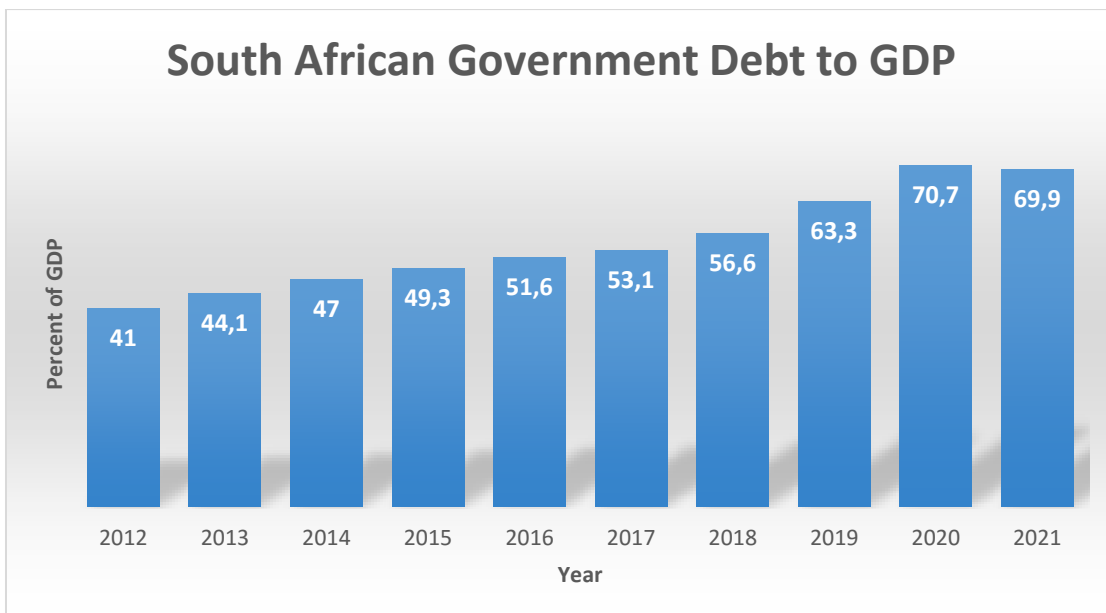
Figure 1: Government Budget Deficit



Source: Trading Economics (2022a)

Moreover, the need for additional tax revenue is emphasised by the steadily growing government Debt to Gross Domestic Product (GDP) ratio as illustrated in Figure 2:

Figure 2: South African Government Debt to GDP



Source: Trading Economics (2022b)

From a review of the growth in the national debt in Figure 2, a trend that is expected to continue in the medium term, and the contractions in tax collections over the past years, it is clear that the *fiscus* is in need of additional revenue collections which could be achieved by expanding the tax base (National Treasury, 2021:3). An increase in tax of up to R40 billion would be needed to help stabilise public debt and return public finances to a sustainable portion over the four years following 2020, in order to get the economy running smoothly again (National Treasury, 2021:39). Moreover, the South African government should be wary of the continued reliance on borrowing as the 2021 debt to GDP ratio is reflected as 69.9%, while the European Union (EU) suggests a Debt to GDP ratio at a maximum of 60% for member countries (European Commission, 2022). To assist the *fiscus* in reducing the South African government deficit and Debt to GDP ratio, it has been identified that there is a portion of the existing tax base that is not taxed in the form of CLP rewards.

Notwithstanding the concerns related to South Africa's government deficit, there are no specific guidelines on the income tax treatment of CLPs, both in the hands of customers and in the businesses providing it (Brink, 2014; Swanepoel & Pidduck, 2020:98). In brief, South Africa's taxing legislation, the Income Tax Act No. 58 of 1962 (the Act), generally provides for a deduction of expenditure for one party to a transaction and an inclusion in income for the other (Odendaal & Pidduck, 2014:7; Pidduck & Odendaal, 2013b:1524; Swanepoel & Pidduck, 2020:77). However, in the context of CLPs two recent cases were considered by the judiciary in *Big G Restaurants (Pty) Limited v Commissioner for the South African Revenue Service*, 2020 (6) SA 1 (CC) and *Clicks Retailers (Pty) Limited v Commissioner for the South African Revenue Service*, 2021 (4) SA 390 (CC). The aforementioned two cases are kindred not only because they are two of the few tax cases to appear before the Constitutional Court of South Africa, but also because they are two of the first cases to address the taxation of CLPs. Interestingly, while the taxpayers in these cases failed in their attempts to claim a deduction under Section 24C of the Act (for future expenditure to be incurred in relation to their CLPs), they are still able to deduct expenditure incurred in respect of the CLPs under the general deduction formula envisaged in Section 11(a) of the Act (Brink, 2014; Pidduck & Odendaal, 2013b:1526). Nevertheless, the corresponding rewards received by customers are not taxed and indicate a disparity in the taxation of CLPs, since providers are able to deduct expenditure incurred in respect of CLPs, whereas the rewards are not taxed in the hands of the recipient (Odendaal & Pidduck, 2014:7; Pidduck & Odendaal, 2013b:1524; Pidduck *et al.*, 2019:627; Swanepoel & Pidduck, 2020:77).

Commentators have argued that the rewards received by customers under CLPs satisfy the gross income definition and should be included in a taxpayer's gross income (Odendaal & Pidduck, 2014:12; Pidduck & Odendaal, 2013b:1532; Pidduck *et al.*, 2019:638; Swanepoel & Pidduck, 2020:98). Consequently, the argument is made that by not taxing the receipt of CLP rewards in accordance with the gross income definition, the South African *fiscus* is losing much needed tax revenues. In quantifying the aforementioned estimated losses of tax revenues, the researchers relied on the accounting disclosures presented in the annual financial statements of selected companies offering the CLPs (Odendaal & Pidduck, 2014:10-11). However, the values (deferred revenues) used in the studies were based on a now outdated reporting interpretation, International Financial Reporting Interpretation Committee 13 (IFRIC 13).

In addition to quantifying the value of CLP rewards in the attempt to quantify possible tax revenues, prior research also considered various mechanisms to tax CLP rewards (Pidduck & Odendaal, 2013b; Pidduck *et al.*, 2019). One mechanism that was considered was the inclusion of the CLP rewards in the income of individuals similar to that of employment income, where the value of CLP rewards received by a customer will be recorded and pre-populated on the customer's individual tax return on eFiling. This mechanism would allow the CLP rewards income to be included in the calculation of the individual's taxable income to which the current progressive tax tables could be applied (Pidduck *et al.*, 2019:639). However, businesses would be required to provide customers and SARS with the necessary documentation each year to allow for CLP income to be included in their income, and would create an additional administrative burden for businesses (Pidduck *et al.*, 2019:639). Furthermore, this mechanism may also result in a higher tax liability for taxpayers upon the assessment of their tax returns due to the taxpayer being taxed at higher tax brackets than before as a result of the inclusion of their CLP rewards and may be considered unfair by taxpayers (Pidduck *et al.*, 2019:639). In addition to this, customers that are sensitive to increases in expenditure who are using CLPs to minimise their expenses and who are then subsequently taxed on their CLP rewards in this manner may undermine the essence of a CLP, as customers may opt not to join the programmes due to the resulting increase in tax from the utilisation of the CLPs (Pidduck & Odendaal, 2013b:1528). Therefore, due to the higher administrative burden on businesses and the possible inequality between customers, this mechanism was rejected.

Consequently, Pidduck and Odendaal (2014; 2013b) proposed a flat rate of withholding tax to be applied to CLP rewards as a final tax. The withholding tax proposed reduced the risk of a perceived additional tax burden by customers as they would receive the CLP reward after the deduction of the withholding tax and therefore would not be liable to pay additional tax upon submission of their tax returns (Pidduck & Odendaal, 2013b:1528). However, this mechanism did not consider the fundamental principles embraced in a progressive tax system in its attempt to broaden the tax base (Pidduck *et al.*, 2019:630). A fundamental principle of a progressive tax system is that a progressive tax rate results in greater tax revenue and decreases income inequality, where higher earning taxpayers would pay a higher rate of tax and a lower tax rate would be applied on lower earning taxpayers (Inchauste, Lustig, Purfield & Maboshe, 2015:35). A solution could be to treat the withholding tax as a prepayment of the normal tax on the CLP rewards and not as a final tax. Although the tax is withheld at a flat rate, the actual normal tax levied on the CLP reward will still be according to the progressive tax tables (Pidduck *et al.*, 2019).

Taxing CLP rewards through a mechanism that strikes a balance between being fair and promoting equality and the coherence of a progressive tax system, will lead to increased revenue for the *fiscus*. Therefore, quantifying any tax revenues that could be collected on CLP rewards via a withholding tax using a progressive tax, has become an important aspect to research due to the increase in the South African government's expenditure (Pidduck *et al.*, 2019:626). This withholding tax will be progressive in nature based on the fact that the amount of CLP rewards earned by customers will be included in their income and thereafter the tax so withheld will be deducted from their normal tax payable upon assessment. Moreover, the conflict in the nature of CLPs as well as their corresponding tax consequences should be of high importance to the government due to the South African tax policy aiming to avoid any tax loss (Pidduck & Odendaal, 2013b:1522). Whether the amount of tax revenue forgone by not taxing CLP rewards will justify the changes required to tax the rewards can only be further investigated upon determining what the potential tax revenues are.

1.3 RATIONALE FOR THE STUDY

This study aims to determine what the potential tax revenue from the taxation of CLP rewards may be. In quantifying this tax revenue, it can be determined whether the administrative changes required to tax the CLP rewards are justified and may lead to further

research into the feasibility of taxing CLP rewards with the goal of increasing revenue collections by the *fiscus*. For the purpose of this study, to quantify the tax revenue on CLP rewards received by customers, reliance will be placed on the disclosure presented in the annual financial statements of the various CLP providers selected for use in this study. The annual financial statements of these various providers were compiled using the reporting framework of the International Financial Reporting Standards (IFRS) as per the Companies Act of 2008 and the Companies Regulation Act of 2011 (Companies & Intellectual Property Commission, 2022; International Accounting Standards Board, 2016).

Prior to 2018, the deferred revenue presented in the annual financial statements of the providers that offer CLPs were presented based on the IFRS standards, International Financial Reporting Interpretations Committee (IFRIC) 13 (IFRS Foundation, 2021). However, from implementation date in January 2013 IFRIC 13 was heavily criticised as the deferred revenue (revenue linked to the CLP rewards) presented in the annual financial statements was entirely dependent on company specific judgement and interpretation of IFRIC 13 (Johansson & Ringius, 2007:12). Consequently, this led to inconsistencies in the amount presented by companies offering CLPs and also impacted any attempts to quantify the tax revenues forgone as a result of not taxing CLP rewards in the hands of customers.

Due to an increase in the use of CLPs by entities, a need arose for the International Accounting Standard Board (IASB) to replace IFRIC 13 and its related standards to allow for a more uniform and consistent presentation of deferred revenue relating to CLPs (Muc, 2022:1). Therefore, from 1 January 2018, IFRIC 13 and its related standards were replaced by IFRS 15 that requires companies to implement a five-step approach to recognise, measure and present revenue and deferred revenue received from a customer (Dili, 2017:1) (Deloitte Touche Tohmatsu Limited, 2016:2-3; International Accounting Standards Board, 2018:870).

The application of the five-step approach in IFRS 15 derived from CLPs in the annual financial statements, will allow researchers for the purposes of this study to quantify the tax revenues on CLP rewards with greater accuracy than before. Furthermore, deferred revenue disclosed by all of the companies analysed in this study should be accounted for and disclosed on the same consistent basis as required by IFRS 15 and should ensure a more reliable method of quantifying tax revenues on CLP rewards.

While prior research has been conducted to quantify the value of tax revenues on CLP rewards in South Africa, such as Pidduck *et al.* (2019) and Pidduck and Odendaal (2014; 2013b), these (and other) studies also revealed further avenues for research. Firstly, in quantifying tax revenues these studies used values gleaned from accounting disclosure that was based on IFRIC 13, which was applicable at the time. In this study, further research was conducted using disclosures in accordance with IFRS 15 (International Accounting Standards Board, 2018:A885). In addition to limitations related to accounting disclosures there were also scoping and sampling limitations that existed in the previous studies. Therefore, there is a necessity for further research to be conducted to quantify the taxation revenue on CLP rewards in the hands of customers to determine whether the tax revenues would in fact contribute in a manner that would outweigh any onerous legislative or administrative amendments or requirements.

1.4 RESEARCH PROBLEM

Substantial growth has been experienced in CLPs in South Africa over the past decade and they are used by over 74% of those who are economically active (Cromhout, 2021:5). However, there has been no change in the taxation of CLP rewards in the hands of the customer (Pidduck & Odendaal, 2013b:1521). Although research has been conducted to quantify the loss to the fiscus from CLP rewards in 2013, 2014 and 2019, this research was conducted using the now superseded IFRIC 13 (Odendaal & Pidduck, 2014; Pidduck & Odendaal, 2013b; Pidduck *et al.*, 2019). IFRS 15 now provides mandated disclosure related to CLPs that would facilitate quantification of the tax revenues on CLP rewards. IFRS 15 will be used to determine whether the value of the tax revenues would outweigh any onerous legislative or administrative amendments and contribute towards the R40 billion that would be needed to help stabilise public debt and public finances. This study forms part of a larger study, where the larger study aims to quantify the potential tax revenues from the taxation of CLP rewards by customers. However, this study aims to quantify the tax revenue of CLP rewards by customers in the retail pharmaceutical industry and specifically by Clicks. **Therefore, this study aims to quantify the potential tax revenues from the taxation of the Clicks ClubCard points issued by the Clicks ClubCard Loyalty Programme to its customers.**

1.5 RESEARCH QUESTION

The research question that applies to the larger study is as follows: **How much potential tax revenue could the South African *fiscus* have received by taxing CLP rewards since the introduction of relevant accounting disclosures?**

However, for the purposes of this study, the research question is as follows: **What is the amount of the potential tax revenue that the South African *fiscus* could have received by taxing CLP rewards from the Clicks ClubCard Loyalty Programme since the introduction of relevant accounting disclosures?**

1.6 RESEARCH OBJECTIVES

- Define the characteristics of a CLP for the purposes of this study that would result in rewards potentially being subject to tax in the hands of the customers under the Gross Income definition in Section 1 of the Income Tax Act No. 58 of 1962.
- Analyse the terms and conditions of the most widely used CLPs in South Africa to determine whether they meet the defining characteristics of a CLP for the purposes of the study.
- Obtain a basic understanding of the taxation of CLPs in other jurisdictions using authoritative literature.
- Analyse the annual financial statements of the providers of the selected CLPs from 2018 till 2021 in order to quantify the value of the CLP rewards issued to customers.
- Quantify the cumulative potential tax revenues forgone by the South African *fiscus* from 2018 to 2021 as a result of not taxing CLP rewards.

1.7 RESEARCH DESIGN AND METHODOLOGY

This study will follow a qualitative research paradigm through the use of multiple longitudinal instrumental case studies (Canada Revenue Agency & Creswell, 2018:13-14; Yin, 2018:51). Qualitative research is based on individuals constructing a meaning through an interaction with their world (Merriam & Grenier, 2019:3). Qualitative research methods are used to provide an in-depth understanding of the research problem, and it is useful for exploring new topics or understanding complex issues (Hennink, Hutter & Bailey, 2020:29). Additionally, it

also involves the collection of data and its analysis to allow the researcher to interpret the meaning behind the data (Canada Revenue Agency & Creswell, 2018:4).

Notwithstanding the above, qualitative research may be utilised to interpret quantitative information (Hennink *et al.*, 2020:29). The data to be used in this study is in the form of financial information from annual financial statements, specifically from the disclosure requirements of CLPs in terms of IFRS 15 to obtain the value of the CLP rewards issued in each financial year. Therefore, a qualitative research methodology is consistent with the purpose of this study as it aims to quantify the tax revenues from the taxation of CLP rewards. However, to quantify the tax revenues the complex IFRS 15 deferred revenue (the amount of CLP rewards awarded to customers by providers) disclosure needs to be understood and analysed. In doing so, the research will provide an in-depth understanding of the significance of the taxation of CLP rewards for the *fiscus* based on the quantified tax revenues that have been forgone.

1.7.1 Longitudinal instrumental case study research

A multiple longitudinal instrumental case study is a unique variant of qualitative research (Yin, 2018:51). Case study research is a qualitative approach and is described by (Canada Revenue Agency & Creswell, 2018:119) as:

“an approach in which the investigator explores a real-life, contemporary bounded system (a case) or multiple bounded systems (cases) over time, through detailed, in-depth data collection involving multiple sources of information (e.g., observations, interviews, audio-visual material, and documents and reports), and reports a case description and case themes. The unit of analysis in the case study might be multiple cases (a multisite study) or a single case (a within-site study).”

Therefore, a case study approach may be a single-case case study or incorporate multiple cases which is the study and evaluation of more than one case (Saunders, Lewis & Thornhill, 2007:140). A multiple cases case study is appropriate to establish whether the findings in one case can be observed in other cases. As a consequence, a generalisation can be made from these findings (Creswell, 2009:214). For the purposes of this study, the case study approach is applicable as financial statements are analysed to obtain the deferred revenues so that they may be used as a basis to describe the tax revenues that the *fiscus* may be able to collect from CLP rewards. Moreover, for the purposes of this study, a multiple-case case study is applied because multiple CLPs will be selected to quantify the tax revenues

for the larger study of which the selected CLP for this study forms part. Therefore, a multiple longitudinal instrumental case study is suitable for the purposes of achieving the research objectives of the larger study.

In addition to the use of a multiple case study design, a longitudinal study design will be used for the purposes of this study. Saunders *et al.* (2007:601) define a longitudinal study as “the study of a particular phenomenon (or phenomena) over an extended period of time”. A longitudinal study is one of the few ways in which a person is able to collect data over a long period of time (Saunders *et al.*, 2007:252). Additionally, the time intervals cover trends over elongated periods to address a development in a course of interest (Yin, 2018:51). Therefore, a longitudinal study is suitable for the purposes of this study as the quantification of the tax revenue from CLP rewards is performed over a period of time, from when IFRS 15 was implemented in 2018 until 2021, to address the research question and the research objectives.

The qualitative multiple longitudinal instrumental case study will be carried out in three phases as follows:

- **Phase 1 – Literature review and case study research (Chapters 1 and 2).** The case study research approach will be employed in Chapter 2 of this study to allow a comprehensive analysis of the existing literature and CLPs in South Africa with a specific focus on the Clicks ClubCard Loyalty Programme. This analysis in South Africa allows for an understanding to be obtained on how various CLPs operate and determines whether they meet the definition of a CLP for the purposes of this study. This review includes a description and an analysis of the case that has been selected for the purposes of this study. Thereafter, an analysis of the taxing legislation of South Africa and proposed mechanisms of taxation of CLP rewards to customers will be performed. In addition to this, a basic analysis of the taxing legislation in other jurisdictions will be presented.
- **Phase 2 – Longitudinal case study research and data analysis (Chapter 3).** Firstly, to employ the longitudinal research, an analysis of IFRS 15 will be conducted in order to gain an understanding of the accounting disclosures that will allow the researchers to quantify the CLP rewards of the selected CLPs in Phase 2. Thereafter,

the longitudinal case study approach will be employed in the remainder of Chapter 3. The CLPs selected in Chapter 1 will be analysed on a longitudinal basis from a financial perspective in order to quantify the CLP rewards awarded to customers over a period of time using the financial statements of the provider. The preferred mechanism for taxation as recommended in Phase 1 is applied to these rewards in order to quantify the tax revenue that the South African *fiscus* could have received by taxing CLP rewards since the introduction of relevant accounting disclosures.

- **Phase 3 – Conclusion and Recommendations (Chapter 4).** The method of taxation proposed in Phase 1 will be used along with the results and findings from Phase 2, in order to conclude on the potential tax revenues from the Clicks ClubCard Loyalty Programme. The findings from Phase 1 and Phase 2 will be used to answer the research question and to address the research objectives. Thereafter, recommendations will be made regarding the taxation of CLP rewards in South Africa in order to obtain tax revenue from the CLP rewards.

Despite the fact that only one single CLP, namely the Clicks ClubCard Loyalty Programme, will be evaluated and considered in this study, multiple studies are performed in the larger study due to the fact that this study is part of the bigger study. Therefore, for the purposes of this study, a single case study approach is used, but the larger study uses a multiple case study approach. This study only looks at one sector of the CLP rewards analysed in the larger study and in particular, the Clicks ClubCard Loyalty Programme within the retail pharmaceutical industry.

1.8 UTILISATION OF HOW IFRS 15 DISCLOSURE WILL BE USED

The researcher will be using disclosure mandated by IFRS 15 in order to obtain the values necessary to quantify the CLP rewards awarded and thereby quantify possible tax revenues. It is important to note that in some instances it is necessary for calculations to be used to quantify the CLP rewards based on limited disclosures made in the annual financial statements. Should these disclosures not be accurate or complete it may limit the accuracy of the quantified tax revenues for purposes of this study.

The study will require the following items from the financial statements to quantify the value of the tax revenues with any measure of accuracy:

- The revenue from sale of goods,
- The expected percentage of CLP rewards points that will be used by customers as determined by each company,

Additionally, the study will also require the following items from the terms and conditions of individual CLPs to quantify the value of the tax revenues with any measure of accuracy:

- The ratio of Rand purchases to points earned and
- The rand value of each point

Moreover, the integrated report of Clicks will be required for this study to obtain the percentage of Clicks ClubCard sales to the total value of sales in order to calculate the sales attributable to the CLP.

1.9 VALIDITY, RELIABILITY AND OBJECTIVITY OF THE STUDY

Objectivity and integrity should be continuously maintained throughout the performance of a study (Mouton, 2001:240). The effect of error through bias or subjectivity should be minimalised to enhance the validity of the study and the conclusion based on the research performed (Mouton, 2001:110). There is a certain amount of subjectivity that arises in qualitative research as the researcher decides what is important and what is irrelevant in the data analysis (Bhandari, 2020). It is accepted that the perspectives and experience of the researcher may influence the study and affect the reliability of the study (Patton, 2002:566). Therefore, the following steps are taken throughout the performance of the study to enhance and maintain the validity, reliability and objectivity of the larger study and this study:

1. Subjectivity and bias as a result of the interpretation and application of legislation and financial data is a reason for concern. Therefore, a phased researched methodology is implemented to mitigate subjectivity and bias in the study which is described as follows:

- Phase 1: Literature is analysed comprehensively to explore and describe the nature of CLPs and to obtain an understanding of them, the accounting treatment of CLPs, the taxation of CLPs in countries other than South Africa, and the tax mechanisms that could be used to collect tax revenues from customers. The analysis of this literature is conducted through the use of authoritative bodies of work such as case law, books, peer-reviewed journals,

legislation and accounting IFRS standards. Similarly, CLP terms and conditions are used in this study which were obtained directly from the providers' website that is published.

- Phase 2: The understanding obtained in Phase 1 is thereafter applied in the analysis of the annual financial statements of Clicks in order to quantify the potential tax revenue. The use of unreliable financial information generated by the CLP provider is a reason for concern. However, this concern is mitigated as the annual financial statements of Clicks are compiled in compliance with the International Financial Reporting Standards (IFRS). IFRS is accepted as a reliable framework as it is set with the foremost objective to develop globally accepted financial reporting standards that are understandable, enforceable and of high quality (IFRS Foundation, 2020:4). A rigorous process is followed in the setting of standards which includes research of perceived shortcomings, proposal for publication, redeliberating and finalisation, as well as post-implementation reviews (Deloitte Touche Tohmatsu Limited, 2020). This process is extensive and multiple experts are involved, which leads to a conclusion that IFRS is reliable. Despite the fact that IFRS is reliable, CLP providers may not apply the IFRS correctly and therefore, the disclosure in the CLP providers' annual financial statements may not be reliable. Therefore, in order to address this risk, companies are audited by reputable establishments to determine whether their application of the IFRS is accurate. The annual financial statements of Clicks were audited by a reputable international auditing firm, namely Ernst & Young Inc, and the audit reports as well as any effects of the audit reports were duly considered in the performance of the research (Clicks, 2018a:8-11; Clicks, 2019a:8-11; Clicks, 2020a:8-11; Clicks, 2021a:8-11).

2. In carrying out the research objectives of this study, subjectivity may be introduced in selecting the sample of instrumental case studies for use. The selection of the sample of instrumental case studies for the purposes of Phase 1 of this study as well as the larger study was identified as an area where subjectivity and bias might be introduced. The mere subjective selection of a CLP may have a negative impact on the findings of this study. To address this concern, predefined objective selection criteria were used

to eliminate subjectivity in the selection of the CLPs, as is explained in more detail in Section 1.6.4 below.

3. Furthermore, for the purposes of this study, a limited number of case studies will be selected. Therefore, it may be considered a small population in comparison to the large number of active CLPs in South Africa. However, the population from which the cases are selected are the most widely-used CLPs in South Africa and therefore will be the largest contributors of the potential tax to be gained by the *fiscus* for the purposes of quantifying the potential tax loss (Cromhout, 2021:15).
4. The researchers collaborated on the research proposal and actively engaged one another in critical thinking and professional scepticism to limit personal bias or subjectivity from affecting the study during the application of their minds.

The following measures were taken to maintain and enhance the validity, reliability and subjectivity of this study alone and were employed throughout the performance of this study:

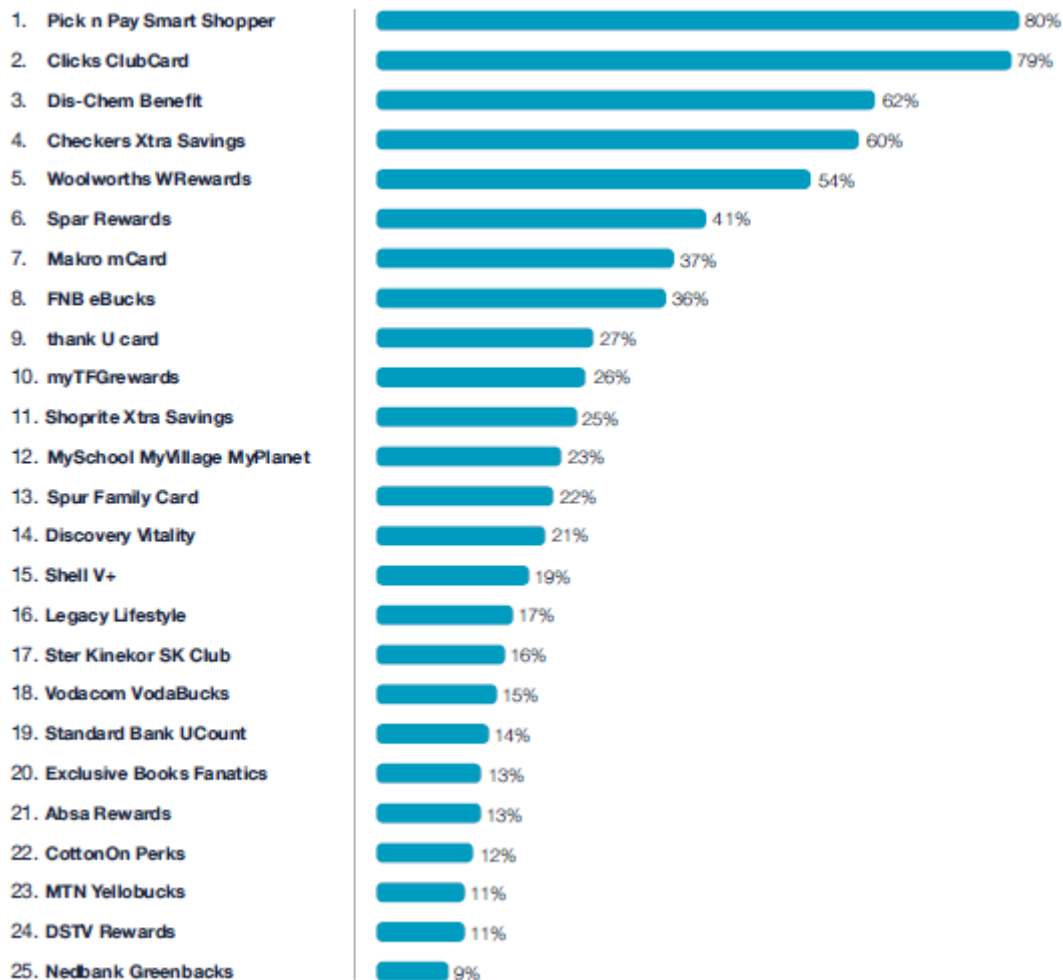
1. An independent researcher reviewed the computations in Chapter 3 (Phase 2) to ensure the accuracy thereof and therefore improve the reliability and validity of the findings.
2. In order to calculate the potential tax revenue from the Clicks ClubCard Loyalty Programme, the integrated reports of Clicks were reviewed, which creates an area of concern regarding whether the reports are valid and reliable, as they are independently assured when the annual financial statements are audited. However, to mitigate this risk, integrated reports of Clicks are reviewed by the board, any sustainability information in the report has been approved by the board's social and ethics committee, management has verified the processes for measuring all other non-financial information and their integrated reports are publicly available on their website.

1.10 SELECTION OF CLPS

The method adopted for selecting the CLPs used in this study is known as purposeful maximal sampling, in which the researcher intentionally selects a CLP from a wide range of information-rich CLPs, based on the objectives of this study (Creswell, 2015:205; Patton, 2015).

For the purposes of this study, the top 25 most used CLPs in South Africa as per the 2021 Truth & BrandMapp Loyalty Whitepaper were used as the population from which the sample was selected. Figure 3 illustrates the most used CLPs in South Africa.

Figure 3: Most used CLPs in South Africa



Source: Cromhout (2021:15)

All 25 of the most-used CLPs were initially considered and included in the population for the purpose of this research project, that is, to quantify the tax revenue from rewards granted to customers by CLPs. Following this, the terms and conditions of the top 25 most used CLPs were inspected, analysed and assessed against the following criteria to determine which CLPs were going to be excluded for the purposes of this study:

1. Those CLPs that only provided an upfront discount or voucher to the customer (not a reward complying with the definition of gross income for tax purposes) were excluded.

2. All CLP providers that did not have financial data that was publicly available were excluded.
3. All those CLPs that provided insufficient disclosure in terms of IFRS 15 were excluded. Disclosure related to deferred revenue and/or contract liabilities and which was clearly indicated as relating to the CLP was necessary for the purposes of this study in order to quantify potential tax revenues.
4. CLPs that had not been in operation for at least three years were excluded. This is because this study is based on a longitudinal instrumental case study analysis.

There were 20 CLPs that did not meet the predefined criteria and could therefore not be included in the sample. These CLPs are indicated in Table 1 below:

Table 1: CLPs not meeting the predefined criteria for inclusion in the sample

Customer Loyalty Programme	Upfront discount/ a voucher	Insufficient financial data or IFRS 15 disclosure	CLP only recently launched
<i>ABSA Rewards</i>		√	
<i>Checkers Xtra Savings</i>	√		√ (October 2019)
<i>CottonOn Perks</i>		√	
<i>Discovery Vitality</i>		√	
<i>DStv Rewards</i>	√	√	√ (August 2020)
<i>Exclusive Books Fanatics</i>		√	
<i>Legacy Lifestyle</i>		√	
<i>Makro mCard</i>		√	
<i>MTN YelloBucks</i>		√	√ (October 2020)
<i>myTFGrewards</i>	√		
<i>MySchool MyVillage MyPlanet</i>		√	
<i>Nedbank Greenbacks Programme</i>		√	
<i>Shell V+</i>		√	√ (December 2019)
<i>Shoprite Xtra Savings</i>	√		√ (October 2020)
<i>Spar Rewards</i>	√		
<i>Spur Family Card</i>		√	
<i>Standard Bank (UCount Rewards)</i>		√	
<i>Ster Kinekor SK Club</i>		√	
<i>thank U card</i>		√	
<i>Vodacom VodaBucks</i>		√	√ (2020)
<i>Woolworths WRewards</i>	√		

Source: Own design

Checkers Xtra Savings, DStv Rewards, myTFGrewards, Shoprite Xtra Savings, Spar Rewards and Woolworths WRewards were all disqualified from this study on the basis that these CLPs provide an upfront discount and/or voucher to the customer when they purchase goods or services from the provider. Consequently, customers utilising the aforementioned CLPs do not get rewards (as defined for the purpose of this research) for purchasing goods or services.

Additionally, some of the CLPs from the population (refer to Table 1) were excluded due to insufficient financial data being available, either due to a lack of disclosure relating to their respective CLPs in terms of IFRS 15, or due to the fact that they are private companies and are not obliged to publish their annual financial statements in the public domain. The respective CLPs of Makro and Shell were furthermore excluded since the aforementioned companies are subsidiaries of multinational holding companies. Consequently, financial data relating to these CLPs was only presented for the aforementioned companies in their respective multinational holding company's financial statements, in which case insufficient segmented reporting was available for the researchers to utilise.

Moreover, the following CLPs were already disqualified above, but they meet additional criteria in order to be disqualified: Checkers Xtra Savings, DStv Rewards, MTN Yellobucks, Shell V+, Shoprite Xtra Savings and Vodacom VodaBucks were all recently launched within the last 3 years prior to 2021. Checkers Xtra Savings and Shell V+ were launched in October and December of 2019 respectively (BusinessTech, 2019; Shoprite Holdings Limited, 2020a). Vodacom, on the other hand, launched their VodaBucks CLP in July 2020 (Vodacom Group Limited, 2022). DStv Rewards came into effect in September 2020, whereas MTN YelloBucks and Shoprite Xtra Savings were both launched in October 2020 (BusinessTech, 2020; Ferreira, 2020; Shoprite Holdings Limited, 2020b). Therefore, the aforementioned CLPs have not been in operation for an acceptable duration of at least 3 years and therefore have insufficient financial data available to which longitudinal case study analysis can be applied. Consequently, the remaining five CLPs that met the above criteria are the following:

- Pick n Pay Smart Shopper
- Clicks ClubCard
- Dis-Chem Benefit
- Nedbank Greenbacks
- FNB eBucks

As already explained, this study is part of a larger study. These five CLPs which meet the criteria, form the sample for the larger study. However, in this study, only the retail pharmaceutical industry will be studied. In particular, the Clicks ClubCard Loyalty

Programme will be considered and the financial statements of Clicks will be analysed to obtain the financial data in order to quantify the loss of tax revenue by the *fiscus*.

1.11 SCOPE AND LIMITATIONS OF THE STUDY

This study seeks to answer the research question posed of what the potential tax revenues to the South African *fiscus* are as a result of taxing CLP rewards awarded to customers. In order to perform research that is suitable for this purpose, the key limitations on the scope of the study are explained below:

- This and the larger study are based on the South African market and are limited to CLPs that are operated in South Africa and only address the tax implications of South African CLPs. Furthermore, this study is limited to the Clicks ClubCard Loyalty Programme.
- This and the larger study are limited to the normal/income tax implications as they seek to quantify the potential tax revenues to the South African *fiscus* and do not assert to generalise global tax revenue. It may therefore be only of limited use for other jurisdictions and of greater value in other developing countries where similar circumstances exist.
- The larger study aims to set a starting point for the illumination of what the potential forgone tax revenues may be and does not seek to encompass and generalise all CLPs currently operated in South Africa. To achieve this, the baseline for the study has been selected as the top 25 most used loyalty programmes in South Africa.
- The larger study excludes certain types of programmes that have characteristics that do not conform to the definition of a CLP for the purposes of this study, the inclusion of which may skew the findings of the study. Therefore, the findings of the larger study are limited to selected CLPs.
- This study further focuses on the CLP rewards earned by customers who are Clicks ClubCard members and not any additional benefits received that do not meet the definition of a CLP for the purposes of this study.
- This and the larger study do not aim to generalise the results to all CLPs used in South Africa, as all the CLPs have widely differing terms and conditions. Since a limited number of CLPs are used, it is unsuitable to generalise the results to all CLPs

in South Africa. However, the findings may provide useful insight into providing an appropriate application of legislation to CLPs in South Africa, and then these results may be applied to other CLPs in South Africa with similar terms and conditions.

- This and the larger study do not claim to prescribe a final tax treatment for the taxing of CLP rewards, but rather to provide an indication of the potential tax revenues in order to determine the viability of taxing CLP rewards so as to serve as a basis for further research on the topic.
- This and the larger study do not consider the behavioural changes of the affected customers and businesses that may occur as a result of the implementation of taxation on CLP rewards.
- The method of analysis and quantifying the amount of CLP rewards in determining the revenue loss is based on the premise of a 25% flat rate of withholding tax that may not at this point sufficiently take into consideration the required level of fairness and income equality as required in a progressive tax system.
- This and the larger study are limited to the disclosures made in the financial statements of various CLPs. This study is specifically limited to the disclosures made in the annual financial statements and the integrated reports of Clicks and its Clicks ClubCard Loyalty Programme.
- Due to the aforementioned limitations in the disclosures, the researcher was required to make certain estimates and assumptions in order to calculate the value of rewards issued by Smart Shopper. These assumptions and estimates are discussed in Chapter 3 of this study.
- Despite the fact that this study was conducted in 2022, the 2022 annual financial statements of Clicks were not yet available and therefore were not included in the scope of this study.

1.12 CHAPTER OUTLINE

The structure of this study will be as follows:

1.12.1 Chapter 1: Introduction

Chapter 1 which comprises part of Phase 1 of this study, provides a background for the study by giving an overview of the topic, the rationale for the study and an outline for the

research method to be followed. Furthermore, this chapter describes the research problem, the research questions, as well as the objectives relevant to the study.

1.12.2 Chapter 2: Literature Review

Chapter 2 which comprises part of Phase 1 of this study, contains a critical review of relevant literature related to the nature of CLPs, to determine the definition of a CLP, and a critical review of the taxation of CLP rewards earned by customers in South Africa. This chapter includes a discussion of gross income, proposals for withholding taxes and a brief analysis of the taxation of CLPs in other jurisdictions.

1.12.3 Chapter 3: Data Analysis

Chapter 3, which encompasses Phase 2 of this study, firstly contains a critical review of relevant literature related to the accounting treatment, whereafter an analysis of the annual financial statements of the selected CLPs is performed. Thereafter, a calculation of potential tax revenues through the use of a withholding tax mechanism is presented, based on the CLP rewards awarded longitudinally of the selected CLPs. Lastly, the potential tax revenue is computed as a percentage of the total tax revenue required to stabilise the public finances of the *fiscus* to indicate whether the taxation of CLP rewards will be viable to the *fiscus*.

1.12.4 Chapter 4: Conclusion

Chapter 4, which contains Phase 3 of this study, concludes this study by summarising the findings. The chapter further highlights scope limitations and makes recommendations for future research.

CHAPTER 2: LITERATURE REVIEW

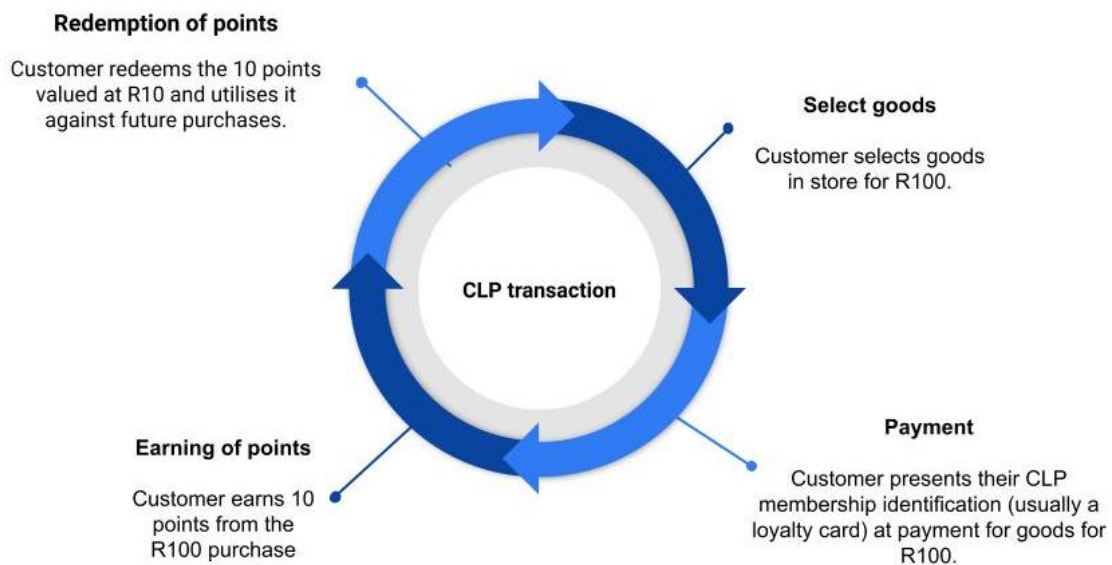
2.1 INTRODUCTION

The objective of this study is to quantify the potential tax revenue to the *fiscus* from the taxation of CLP rewards awarded to customers, with specific reference to the retail pharmaceutical industry and to the points earned from the Clicks ClubCard Loyalty Programme. Chapter 1 provided an introduction to CLPs and the need for the taxation of the CLP rewards, the research question and objectives of this study, as well as the methodological approach to be followed in achieving the research objectives. The aim of this chapter is to analyse CLPs, obtain an understanding of the Clicks ClubCard Loyalty Programme, and to analyse the various mechanisms to tax the CLP rewards using existing literature, legislation and case law. This chapter also aims to obtain an understanding of the taxation of CLPs in a South African tax context, as well as a basic overview of the global tax practices regarding the taxation of CLPs through the use of existing literature, legislation and case law.

2.2 UNDERSTANDING CLPS

In order to understand the accounting treatment of CLPs and to allow for the inclusion of an amount of the CLP rewards issued into gross income to permit the taxation of CLP rewards, it is beneficial to first understand the typical operation of a CLP by exploring various literature related to CLPs. A customer selects goods to purchase. Upon payment they present their CLP membership identification (usually in the form of a loyalty card) and earn CLP reward points based on the value of the purchase. The customer may usually redeem these CLP rewards in future or utilise them against future purchases. This mechanism is illustrated in Figure 4 below.

Figure 4: Illustration of a CLP transaction



Source: Own design

CLPs are designed by companies to provide customers with benefits for remaining loyal to the company (Odendaal & Pidduck, 2014:6). However, there are various definitions of what a CLP is and what their various rewards entail. Therefore, the concept of what a CLP is will be further explored by examining legislation specific to South Africa, as well as various authoritative literature.

The existing Income Tax Act No 58 of 1961, does not define what a CLP is in Section 1 of the Act. Furthermore, there have not been multiple court cases where the definition of a CLP is defined, except for the *Big G Restaurants (Pty) Limited v Commissioner for the South African Revenue Service*, 2020 (6) SA 1 (CC) and *Clicks Retailers (Pty) Limited v Commissioner for the South African Revenue Service*, 2021 (4) SA 390 (CC), which cannot be relied on for the definition of a CLP. In addition to this, IFRS 15 does not define what a CLP is either. IFRS 15 does however refer to CLPs by including them as being a contract that has been entered into by a customer which provides the customer with the option to acquire additional goods or services, provided that the right to acquire the additional good or service is a material right (International Accounting Standards Board, 2018:B39-B40). Customer options for additional goods or services allow customers to acquire goods or services for free or at discount in multiple different forms, one of them being 'customer award rewards or points' (International Accounting Standards Board, 2018:B39). A material right is defined as a right that:

“... the customer would not receive without entering into that contract; and gives the customer an option to acquire an additional good or service at a price that is lower than the stand-alone selling price” (International Accounting Standards Board, 2018).

In light of this, when a customer purchases goods or services from a CLP provider, the customer will be issued with CLP rewards which can be used by the customer to purchase additional goods or services at a reduced amount or for free from the provider, or from an entity that is contracted with the provider to provide the goods or services to the customer. Therefore, it can be concluded that the CLPs provide a material right as the customer would not have received the right to additional goods or services for free or at a reduced price if they had not joined the CLP. Despite the fact that IFRS 15 includes CLPs in the standard, IFRS 15 cannot be used to specifically define what a CLP is due to the scope of this classification being so broad. However, IFRS 15 is imperative for the quantification of the tax revenue from CLP rewards. Therefore, given the above discussion, for the purposes of the study, the Income Tax Act, case law and the IFRS cannot be relied on to define what a CLP is, and other legislation will be applied instead.

Turning to the Consumer Protection Act No. 68 of 2008 (hereafter referred to as the CPA), it defines a ‘loyalty programme’ in Section 1 of the CPA, (referred to as “customer loyalty programmes” in Section 35) as:

“... any arrangement or scheme in the ordinary course of business, in terms of which a supplier of goods or services ... offers or grants to a consumer any loyalty credit or award in connection with a transaction or an agreement.”

The CPA further distinguishes loyalty programmes from ‘trade coupons and similar promotions’ (or a “promotional offer”) in Section 34(2), namely:

“an offer or promise, expressed in any manner, of any prize, reward, gift, free good or service, price reduction or concession, enhancement of quantity or quality of goods or services, irrespective of whether or not acceptance of the offer is conditional on the offeree entering into any other transaction.”

In light of the above, a trade coupon or a promotion which is discussed in Section 34 of the CPA excludes a loyalty programme as defined in Section 35 which is confirmed in Section 34(1)(b) of the CPA. Despite the fact that in terms of Section 35(1) of the CPA, ‘loyalty programmes’ are considered a legal medium of exchange, ‘trade coupons and

similar promotions' (in other words discounts) are not as they are excluded from being a loyalty programme as determined earlier. Therefore, based on the CPA, it is clear that any form of discount received which is in the form of a trade coupon and similar promotion is not a loyalty programme, as there are no rewards provided by a supplier in connection with a transaction or an agreement and therefore, not a CLP for the purposes of this study.

Turning to authoritative literature, Brink (2014:5) confirms that CLPs are available to the public and allow customers to accumulate benefits after making a purchase. Customers may thereafter decide to use these accumulated benefits to either receive a good or service or to receive a discount on any future purchase of goods or services (Brink, 2014:5). In addition, Olivier and Burnstone (2014:3) categorise CLPs into two main types, namely "Rewards Programmes" and "Customer Clubs":

- Rewards programmes encourage specific consumer behaviour and reward customers in the process (Olivier & Burnstone, 2014:3). Customers are rewarded in the form of either a discount on a current transaction, an allocation of loyalty points that can be redeemed on a future transaction, or the reward may be used to purchase products and services from third parties (Olivier & Burnstone, 2014:3).
- Customer clubs offer a range of benefits to members, typically charge a membership fee, and do not reward members for specific transactional behaviours, but instead provide members with "retail discounts and/or value-added benefits" (Olivier & Burnstone, 2014:3).

Based on the above, it is clear that there are various definitions for CLPs and there are categories of CLPs for some definitions too. The customer clubs as defined by Olivier and Burnstone (2014) relate to the definition of a 'trade coupon or similar promotion' in Section 34 of the CPA, due to the fact that customers are merely awarded with a discount or a benefit, but the reward or benefit is not derived from a transaction with the provider who then issues CLP rewards or credits for customers to use in future to acquire additional goods or services. However, the rewards programme as defined by Olivier and Burnstone (2014), the CLP definition by Brink (2014) and the definition of 'loyalty programmes' in Section 35 of the CPA are similar where a client will transact with the provider, and subsequently CLP rewards will be issued to the customer to purchase additional goods and services. Therefore, for the

purposes of this study, only the CLPs that are reward programmes according to Olivier and Burnstone, 'loyalty programmes' as defined in Section 35 of the CPA and CLPs as defined by Brink will be analysed.

2.3 UNDERSTANDING CLICKS CLUBCARD LOYALTY PROGRAMME

For the purposes of this study, only one of the four CLPs that were selected in Chapter 1 of the larger study will be analysed, namely the Clicks ClubCard Loyalty Programme within the retail pharmaceutical industry. The CLP offered by Clicks is their ClubCard which was launched in 1996. The Clicks ClubCard is one of the fastest growing loyalty programmes in South Africa. According to the 2021 Truth Whitepaper, the Clicks ClubCard is ranked second in the top 25 most used CLPs in South Africa (Cromhout, 2021:16). Furthermore, it was also ranked ninth in the top 15 CLPs that South Africans cannot live without (Cromhout, 2021:24). Moreover, the Clicks ClubCard was nominated as the best loyalty programme at the South African Loyalty Awards for 2021, as well as in 2020 (Clicks, 2020b:37; Clicks, 2021b:19). Therefore, the Clicks ClubCard has a significant impact on the lives of South Africans and is frequently used. The ClicksClub Card is not only frequently used, but is widely used by South Africans with the number of members in 2021 being 9,5 million (Clicks, 2021b:26). A customer must be a member of the Clicks ClubCard Loyalty Programme in order to earn points and to redeem the rewards.

To join the Clicks ClubCard Programme requires no additional cost and a customer can either enrol on the Clicks Mobile Application (App) or directly in store at a Clicks or a Claire's store. If a customer enrolls on the App, their ClubCard will be loaded onto their phone, or if a customer enrolls in store, then a physical card is awarded to the customer. Clicks ClubCard members swipe their card upon sales and earn points which allows members to enjoy a cashback. A customer will earn points on all purchases made at Clicks, Claire's or The Body Shop. For every R5 that a customer spends, one point is awarded to the customer and one point is equal to ten cents. To earn these points, a customer who shops in store will swipe their ClubCard and if a customer shops online at any of the aforementioned stores, then the customer is just required to enter the card number (Clicks Retailers (Pty) Limited, 2022a). A customer needs to present their card to the cashier up front in order to earn points, or if they have the Clicks App, then the cashier can simply scan the virtual ClubCard on the customer's cell phone. Therefore, if a customer who is a ClubCard member does not have their physical or virtual card on hand with them, then they are not able to earn points on their

purchase. However, rewards partners often require a customer to simply provide their card number (Clicks Retailers (Pty) Limited, 2022b).

There are two different ClubCards that a customer can have. The blue ClubCard is the ClubCard that is awarded to every customer when they first enrol for the Clicks ClubCard Programme. When a customer who has a blue ClubCard earns 300 points in a 12-month period, they are automatically upgraded to the Gold ClubCard which is sent to the customer by post. The gold ClubCard allows customers to receive a free magazine every two months in store. However, despite the fact that there are two different ClubCards, they earn points the same way and the redemption of these points is exactly the same. Once these points have been earned, ClubCard members who earn at least 50 points by the qualification date will receive cashback loaded onto their ClubCard every two months for six periods starting on the 24th of January and ending on the 21st of November. In addition to this, the loaded cashback is only valid and available for utilisation for a period of 12 months (Clicks Retailers (Pty) Limited, 2022a). A customer can view their points and their available cashback on the App to actively know when they have cashback and therefore utilise it before expiration (Clicks Retailers (Pty) Limited, 2022d). The cashback and the ClubCard deals are only redeemed and utilised in South Africa (Clicks Retailers (Pty) Limited, 2022b; Clicks Retailers (Pty) Limited, Not dated). Once the cashback is loaded onto a customer's ClubCard, the cashback can only be used for purchases in a Clicks, Claire's or The Body Shop (Clicks Retailers (Pty) Limited, 2022a). Furthermore, the cashback cannot be exchanged for cash and it cannot be transferred to another person (Clicks Retailers (Pty) Limited, 2022b).

In light of the above, Clicks does offer additional rewards in special circumstances. Firstly, ClubCard members often enjoy reduced prices on selected products which results in members receiving a discount on certain items. Secondly, if a customer who is a ClubCard member spends over R1 000 in a 2-month qualifying period, they will earn double points for the remainder of that period. Lastly, ClubCard members sixty years or older are automatically enrolled in the SeniorsClub at Clicks, where Clicks uses the date of birth on record. Then these ClubCard members will earn double points on purchases on Senior double points days which take place every Wednesday (Clicks Retailers (Pty) Limited, 2022a).

Furthermore, customers who have ClubCards can use their ClubCards at companies with which Clicks have special agreements and have become rewards partners. This allows customers to receive rewards at all of them and earn points from the reward partners which become cashback that the customers may use at any Clicks, Claire's or The Body Shop (Clicks Retailers (Pty) Limited, 2022c). The rewards partners and their agreements that they have with Clicks on the earning of points are tabulated below:

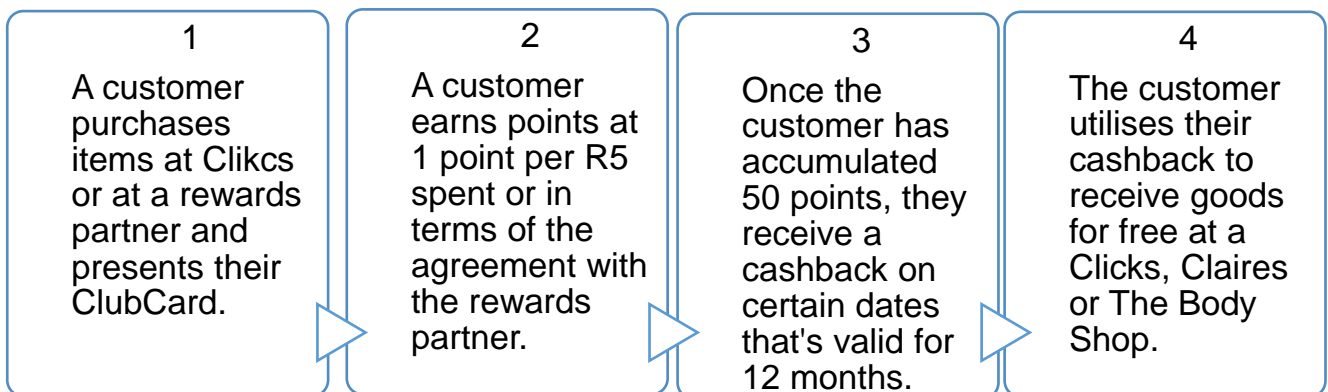
Table 2: The rewards partners and their involvement with the Clicks ClubCard Loyalty Programme

Rewards Partner	Agreement in place in terms of earning points
ARC	ClubCard members earn 10% cashback on their first purchase at ARC. Thereafter members will earn 6% cashback on their purchases at ARC.
BestMed	BestMed members earn double points when they shop at Clicks.
City Lodge Hotels, the Courtyard and Town Lodge Hotels in South Africa, Namibia and Botswana.	For every R5 spent at the hotels by a customer who is a ClubCard member, they will earn two points.
Discovery Vitality	Discovery Vitality members who are customers at Clicks with a ClubCard, earn up to 25% cash back when they buy HealthCare items at Clicks. In addition, they earn 10% cash back immediately on thousands of HeathCare items.
eBucks	Customers who have ClubCards and belong to the ebucks CLP at First National Bank, will be able to spend their ebucks in store or online.
Engen	Customers who are ClubCard members are able to swipe their Clicks ClubCards at an Engen garage when purchasing fuel and for every one litre of fuel one point will be earned.
Europcar	Customers who are ClubCard members will earn five points for every R5 spent when hiring a car from Europcar online.
HealthPrint	HealthPrint members who are Clicks ClubCard members earn double points when purchasing from Clicks.
Momentum Multiply	Multiply Premier members who are Clicks ClubCard members can get up to 10% cashback and double points when they shop at Clicks.
NetFlorist	Customers who are ClubCard members are able to provide NetFlorist with their ClubCard number and for every R5 spent, the ClubCard member will earn one point.
Spec-savers	For every R5 that is spent by a Clicks ClubCard member at Spec-savers, they will earn one point.
Execuspecs	For every R5 that is spent by a Clicks ClubCard member at Execuspecs, they will earn one point.
Sorbet	For every R5 that is spent by a Clicks ClubCard member at Sorbet, they will earn one point
The Body Shop	For every R5 that is spent by a Clicks ClubCard member at The Body Shop, they will earn one point

Source: (Clicks Retailers (Pty) Limited, 2022c)

Therefore, in light of the above, the following Figure 5 depicts the operation of the Clicks ClubCard Loyalty Programme:

Figure 5: Operation of the Clicks ClubCard Loyalty Programme



Source: Own design (Clicks Retailers (Pty) Limited, 2022a)

It is clear from Figure 5 above that the Clicks CLP is similar to the illustrated example of a CLP depicted in Figure 4. This is so as Steps 1 and 2 of Figure 4 relate to the purchasing of goods and the presentation of their CLP membership identification which is also what happens in the Clicks ClubCard Loyalty Programme as depicted in Figure 5 in the first block, as a customer who is a ClubCard member will present their ClubCard to the cashier upon purchasing items at Clicks or at a rewards partner, or a customer will provide their Clicks membership number when purchasing online. Thereafter, Step 3 of Figure 4 and the second block of Figure 5 encompass the earning of points by the customer at the agreed upon point-earnings ratio in terms of the Clicks terms and conditions according to which one point is earned for every R5 spent. In addition, there are specified point-earnings ratios that Clicks has agreed upon with their various rewards partners as depicted in Table 2. Figure 5 differs from Figure 4 in the fact that the third block of Figure 5 relates to the time period that is required to pass to allow for the cashback to be loaded onto the customer's ClubCard every two months, as discussed earlier, and a balance of 50 points is required before a customer can have cashback which is not provided in Figure 4, but does not change the fact that it is a CLP as it does not change the purpose of the CLP which is to provide free goods or services to a customer as a result of purchasing goods from the provider. Thereafter, Step 4 of Figure 4 and the fourth block of Figure 5 both relate to the redemption of points when

the cashback is utilised against future purchases. Therefore, the Clicks CLP is similar to the illustrated example of a CLP and operates in a manner that a normal CLP would.

Moreover, the Clicks ClubCard Loyalty Programme is a CLP for the purposes of this study due to the fact that it complies with the definition of a CLP. Firstly, the Clicks CLP complies with the definition provided by (Brink, 2014), as customers who are ClubCard members accumulate benefits in the form of points and then the accumulated points are converted to cashback to receive goods from Clicks, Claires or The Body Shop, whereby the cashback is utilised to receive a discount on any future purchases of goods or services. Secondly, the Clicks CLP complies with the definition provided by (Burnstone & Olivier, 2018), as points are allocated to customers who are ClubCard members that are redeemed on a future transaction. Lastly, it complies with the definition of a loyalty programme as defined in Section 35 of the CPA, as Clicks provides a reward in terms of the purchase made by the customer through the provision of points to the customers from purchasing at Clicks or at a rewards partner.

Furthermore, as discussed earlier, this study forms part of a larger study where, in the larger study the analysis of the potential tax revenue is done on this CLP as well as three other CLPS. The characteristics of the Clicks ClubCard Loyalty Programme and the three other CLPs within the other three studies are tabulated as follows:

Table 3: Characteristic comparison of different CLPs

Characteristic	Clicks ClubCard	Pick n Pay Smart Shopper	Dischem Benefit	FNB eBucks
Points earned for spending	1 point earned for R5 of spending	1 point for R2 of spending	1,5% of a customer's purchase is a point	Varies based on the customer's type of bank account as well as their level
Rand value of a point	10 points equate to R1	100 points equate to R1	1 point equates to R1	10 points equate to R1
Earning points at third parties	Yes	Yes	Yes	Yes
Points balance required to redeem	Yes, 50 points are required	Yes, 500 points are required	No	No
Conversion into cash	No	No	No	Yes
Redemption at third parties	Yes	Yes	No	Yes
Donation of points	No	Yes	Yes	Yes
Expiry of points	Yes, after 12 months	Yes, after 12 months	Yes, after 12 months	No

Source: Own design (Clicks, 2021a; Dis-Chem Pharmacies Limited, Not dated; FirstRand Bank Limited, 2021; Pick n Pay Stores Limited, 2022)

Table 3 clearly indicates that while there may be similar features across the CLPs, they are not homogenous due to the various differences in their respective terms and conditions, such as the differences in the ability to donate points, redeem points at third parties, convert the points into cash, how to earn points, when points expire and what are the value of the points. Therefore, in determining the applicability of the gross income definition to CLPs, the specific CLP needs to be analysed and evaluated.

2.4 SOUTH AFRICAN TAX CONTEXT – GROSS INCOME DEFINITION

As discussed in Chapter 1, it is evident that South Africa is in need of additional tax revenues due to the government deficit. Therefore, South Africa needs to broaden its tax base to reduce its revenue shortfalls and to combat weak economic performance. In an attempt to broaden the tax base and find additional sources of revenue, there has been research done that proposes the taxation of CLP rewards issued to customers (Odendaal & Pidduck, 2014;

Pidduck & Odendaal, 2013a; Pidduck *et al.*, 2019; Swanepoel & Pidduck, 2020). This proposal will also address the imbalance caused by the fact that the company providing the reward is allowed a deduction for their associated costs, even though the customers are not being taxed on the rewards awarded to them (Swanepoel & Pidduck, 2020:77). In order for the CLP rewards to be taxable in the hands of the customers, they have to comply with the definition of “gross income” in the Act.

Section 1 of the Act defines gross income for a resident as “the total amount, in cash or otherwise, received by or accrued to or in favour of [a taxpayer] ...excluding receipts or accruals of a capital nature”. This broad definition of gross income is followed by a list of “special inclusions” which override the capital exclusion. CLP rewards are not currently listed as a “special inclusion”. Therefore, an analysis of each aspect of the “gross income” definition will be performed to determine whether CLP rewards offered by Clicks fall under the general definition of “gross income” and should be taxed in the hands of the customer. Furthermore, as established above in Section 2.3, the Clicks ClubCard Loyalty Programme complies with the definition of a CLP. Therefore, in order to address the research problem of this study, an in-depth analysis will be performed on whether the points awarded to customers who are Clicks ClubCard members should be taxed as gross income in the hands of the customer by analysing each component of the gross income definition to determine the potential tax revenue.

2.4.1 Total amount in cash or otherwise

The term “total amount in cash or otherwise” is not defined in the Act. Neither are the words making up this term, namely amount, cash and otherwise. However, the ordinary meaning in a dictionary of the total amount in cash can be considered. The “amount” will be the total quantity of something, which in the case of ‘gross income’ will be the total quantity of cash or “otherwise” (Oxford, 2022). Furthermore, the ordinary meaning of ‘cash’ is the physical money and currency of South Africa (Oxford, 2022). Based on the discussion in Chapter 1 and in Section 2.1, CLP rewards are not converted to cash and therefore the cash value cannot be obtained in that manner. However, the CLP rewards are used to purchase additional goods and services, therefore the total amount in cash would be the total cash value obtained by the customer if the ordinary meaning of the term was used. However, this is not reliable on its own and should be supported by case law being analysed to determine the definitions of the first component of gross income. Firstly, the meaning of ‘amount’ was

established in the *Commissioner of Inland Revenue v Lategan*, 1926 SA 203 (CPD) (2 SATC 16) case, where it was held that the word 'amount',

“...includes not only the cash which the taxpayer has received or which has accrued to him, but the value of every other form of property which he has received or which has accrued to him, including debts and rights of action.”

Therefore, it is clear that the word ‘amount’ must be given a wider meaning and should not only include money, but the *value* of any property earned by the taxpayer which has a monetary value. Furthermore, this definition of “amount” was confirmed in the *Commissioner for Inland Revenue v Delfos 1933 AD 242 at 251* case, whereby Wessels CJ found that if anything ‘is not money’s worth or cannot be turned into money’, it should not be taxed. That is not to say that it has to be cash, but it must be able to be turned into cash. Therefore, even if CLP rewards cannot be turned into cash, as long as they have a monetary value on the basis that a customer can purchase goods or services that have a cash value, then they will be taxed.

As discussed in Section 2.3, the points earned by customers will not be an amount in cash, as the points cannot be exchanged for cash, but the points will be an amount that is “otherwise” which will have a monetary value because each point is worth R0,10 and therefore they do have an amount. In addition, when the points are utilised to purchase goods or services then the good or service obtained will have a monetary value that will be the “amount”. Furthermore, once a customer has accumulated 50 points, the points will be converted to cashback which is the rand value of the points and therefore they have a monetary value.

In addition to the above, in the *Commissioner of Inland Revenue v Butcher Brothers (Pty) Limited*, 1945 SA 301 (AD) (13 SATC 21) case, the court held and established a principle that ‘otherwise’ means ‘an amount must have an ascertainable monetary value in order to be included in gross income and if the value of the asset, in money, cannot be determined or the asset cannot be converted into cash, then it will not be included in gross income’. Therefore, CLP rewards that are not cash and cannot be converted into cash, will only meet the ‘amount’ element of the definition if they have an ascertainable monetary value. Furthermore, in the *Commissioner of SARS v Brummeria Renaissance (Pty) Ltd &*

others, 2007 SA (4) 1338 (SCA), it was established that the test to determine whether an amount can be turned into money or not, is objective and not subjective.

In light of this, the points that are issued are accumulated in a customer's ClubCard account, whereafter it is used to purchase goods at any Clicks, Claire's or The Body Shop. Therefore, it is evident that the points that are converted to cashback are exchanged for goods and when the cashback is utilised to purchase goods, the goods have monetary value that can easily be attached to them. Therefore, it is clear that there is a total amount in 'otherwise'.

2.4.2 Received by

For an amount to be received by a customer for the purposes of gross income, it was established in *Geldenhuis v Commissioner of Inland Revenue, 1947 (3) SA 256 (C) (14 SATC 419)*, that the term 'received by' means that the taxpayer should receive the amount on his own behalf and for his own benefit. Additionally, Steyn CJ stated in *Geldenhuis v CIR* that "received by" implies a right to an amount beyond the cash flow of the amount, as a result of the words 'received by' being followed by the words 'accrued to or in favour of' in the definition of gross income. Furthermore, it was established that a customer needs to be 'entitled' to the amount. When a Clicks ClubCard customer swipes their ClubCard, or if they provide their card number when purchasing items online, they earn points that reflect on the ClubCard account. From the date that they receive these points, it may seem that they become entitled to the points, as the points reflect in their account and cannot be transferred to anyone else. The points that reflect in their account seem to therefore be received by the customer for the customer's own benefit, as they can use their points earned. However, there are limitations as to when the points can be used since there is a time period that needs to elapse before the points can be converted to cashback and thereafter, the value of the points can be utilised against a future purchase. The customer is however allowed to redeem their points at any point in time after their cashback has been loaded onto their card and it is within 12 months before the points expire. Therefore, it may seem that a customer is entitled to the amount when the points are issued by Clicks, however the ownership of the points needs to be considered to determine whether the customer is entitled to the CLP rewards or not. In light of this, it was determined that if a physical card is needed then there is no legal ownership of the points by the customer, and then "received by" cannot be relied upon but rather "accrued to" (Swanepoel & Pidduck, 2020:91). A customer who is a member of the ClubCard Programme is not required to always present the physical card upon

purchasing items. As determined in Section 2.3, a customer may also provide a virtual card that will be obtained from the App, or if they are purchasing online then a customer is only required to provide the card number. Therefore, a physical card is not required at all times, but a card is required either physically or virtually in order to have a card number. Therefore, the points are effectively linked to the card and therefore are not “received” by a customer. Thus, it is clear that the points earned by a Clicks ClubCard member are not received by the customer when the points are issued, but rather when the points are converted into cashback, and they are redeemed to utilise against future purchases as they are then receiving the true value of their points. This was further determined by Swanepoel and Pidduck (2020) where it was established that CLP rewards are “received” when they are exchanged for goods or services, as this is where the customer has full ownership and control over the CLP rewards.

However, in terms of the case of *Secretary for Inland Revenue v Silverglen Investments (Pty)Ltd*, 1969 (1) SA 365(A), it was held that income is taxed at the earlier of when the income is received and when it accrues to a taxpayer. In light of this, even though it has been determined that the points are only received by a customer when the cashback is utilised, it must be determined whether the points accrued to a customer earlier than when it was received by the customer in order to tax a customer earlier.

2.4.3 Accrued to

The definition of “accrued to” is also not defined in the Act and therefore case law will be relied upon. “Accrued to” implies that the taxpayer is simply entitled to the amount as held in *CIR v Lategan*, 1926 SA 203 (CPD) (2 SATC 16). However, there are three overarching concerns regarding whether the value of the CLP rewards earned by a customer will be deemed to have accrued to the customer and each aspect will be discussed below, separately.

2.4.3.1 Provider’s obligation to provide points

The first concern that arises is whether the provider (Clicks, for the purposes of this study) has an obligation to provide a customer with points, because if Clicks has the obligation to provide points, then a customer will be implied to have an equivalent entitlement to the points (Swanepoel & Pidduck, 2020:93). In the case of the *Clicks Retailers (Pty) Limited v Commissioner for the South African Revenue Service*, 2021 (4) SA 390 (CC), it was

concluded that the provider has an obligation to allocate the concomitant points to the customer where a loyalty card is used. Therefore, the provider, Clicks, has an obligation to provide and allocate the points to the customer, and since there is an obligation by Clicks, there is a corresponding right for a customer to receive the points issued by Clicks. The right to the points indicates the entitlement that the customer has to the points issued to them from Clicks. Furthermore, the obligation only arises at the point in time when the sale of the goods or services occurs that allows the rewards to be earned. Therefore, the entitlement to the rewards on behalf of the customer, which is a strong indicator of when the accrual takes place, is when rewards are earned and not only when the points are exchanged (Swanepoel & Pidduck, 2020:93). Clicks ClubCard points therefore will accrue to a customer when they purchase goods or services at Clicks or at a rewards partner from which they earn points too, as that is when Clicks has the obligation to provide the points to the customer.

2.4.3.2 Minimum balance required to utilise points

The second concern is whether a customer will have a value of rewards that accrues to them if they are required to reach a certain amount of points before they are able to redeem the points. As determined above, “accrued to” implies that the taxpayer is simply entitled to the amount as held in *CIR v Lategan*, 1926 SA 203 (CPD) (2 SATC 16). However, entitlement does not address the consequences of suspensive and resolutive conditions on amounts to be received by the taxpayer. Therefore, in *Mooi v Secretary of Inland Revenue*, 1972 (1) SA 675 (A) (34 SATC 1), it was established that for something to accrue to someone, that person has to be unconditionally entitled to it. Upon receipt of the points into the customer's ClubCard account after a purchase of goods or services at Clicks or at a rewards partner, the customer has the right to the points in their account. Therefore, they may not be able to be utilised yet as cashback, but the points remain the customer's points as they are not transferrable and therefore, they are entitled to the points and not the cashback yet. Furthermore, in the *Commissioner for Inland Revenue v Peoples Stores (Walvis Bay) (Pty) Ltd* 1990 (1) PH T11 (AD) court case, it was concluded that an amount accrues to a person even though it is not due and payable. Therefore, despite the fact that the points cannot be converted to cashback and the amount of cashback is not due yet, it does not take away the fact that the points have accrued to the customer, as they are entitled to the value of the CLP rewards despite the fact that the rewards are not due to the customer at point of issuance of the points.

2.4.3.3 Theft, loss and expiry of points

The last concern is whether the theft, loss and expiry of points will change the determination of whether the value of the rewards earned accrue to the customer. In the *Commissioner of Inland Revenue v Witwatersrand Association of Racing Clubs* 1960 (3) SA 291 (A), 23 SATC 380, it was established that where a person receives income for his own benefit and on his own behalf, then the subsequent disposal of the income does not “retrospectively negate its original nature as income in his hands”. Therefore, the expiry, loss and theft of points is a disposal of the points with loss and theft of points being an involuntary disposal which is not applicable in the Clicks ClubCard Loyalty Programme, as customers are not allowed to transfer their points. However the points do expire after 12 months in the Clicks ClubCard Loyalty Programme, which indicates a disposal of the income. However, even though this disposal of income takes place, it does not alter the fact that the income of the value of the points issued did in fact accrue to the customer when the points were issued and any subsequent disposal does not take away the fact the points did accrue to the customer.

2.4.4 Conclusion on received by or accrued to

Therefore, in light of the factors considered in Sections 2.4.2 and 2.4.3, the value of the points issued by Clicks to the customers who are ClubCard members is deemed to be received by the customer when they utilise their cashback, and therefore when they redeem their points. In contrast, the value of the points issued accrues to the customer when they are entitled to the amount which is when Clicks issues the respective points to the customer and the points reflect in their ClubCard account. However, based on the fact that a taxpayer should be taxed at the earlier of accrual and receipt in terms of the *Secretary for Inland Revenue v Silverglen Investments (Pty) Ltd* case, the customers that are ClubCard members will be taxed when the value of the points accrue to them, which is on the day that they purchase from Clicks or a rewards partner and they earn points based on their purchase, as that is the earlier date compared to when the points are received.

2.4.5 Excluding receipts and accruals of a capital nature

The final component of the gross income definition is to determine whether the value of the rewards is of a capital nature or not. The Act provides no clarification as to what the definition of the term “capital in nature” is, and has been described as being the most controversial (Swanepoel & Pidduck, 2020:94). In addition, this aspect of the definition creates uncertainty due to the customer’s individual circumstances and intentions that require consideration

(Swanepoel & Pidduck, 2020:94). One of the determining factors of whether an amount is revenue or capital in nature, is determined by considering a customer's intention. In determining whether a customer's intention is capital or revenue in nature, one needs to consider whether the taxpayer is in a profit-making scheme, as held in *Commissioner of Inland Revenue v Pick 'n Pay Employee Share Purchase Trust*, 1992 (4) SA 39 (A) (54 SATC 271). Customers who are members of the Clicks ClubCard Loyalty Programme, are most likely part of a profit-making scheme as they are required to actively sign up to belong to the CLP which indicates their intention to derive value from the use of the CLP, in order for them to be able to receive goods or services for 'free' by using their cashback as their method of payment in future.

Furthermore, in the *Commissioner of Inland Revenue v Visser*, 1937 SA 77 (TPD) (8 SATC 271), Maritz J concluded that:

“For what is principal or tree in the hands of one man may be interest or fruit in the hands of another. Similarly, law books in the hands of a lawyer are a capital asset; in the hands of a bookseller they are a trade asset.”

Therefore, the Clicks ClubCard points can be seen as fruit, whereas the Clicks ClubCard Loyalty Programme can be seen as the 'tree' due to the fact that the CLP provided by Clicks is the means by which income is produced, as it is what produces the points that are issued to a customer. As a result of the issuance of points which are converted into cashback when the customer has reached a balance of 50 points, customers subsequently utilise the cashback to obtain goods and services. However, in the *Commissioner for Inland Revenue v Visser* case, Maritz J cautioned that the intention of a customer should be analysed carefully due to the classification of an amount being revenue, or capital being subjective and it varies from customer to customer and therefore, objective evidence needs to be obtained to determine the true intention (Swanepoel & Pidduck, 2020:94).

A factor that should be considered in addition to the customer's intention, is to determine the frequency of the transactions. This additional factor was established in the *Commissioner for Inland Revenue v Nussbaum* 58 SATC 283 at 286, where Corbett CJ held that the frequency of a retired teacher's transactions in his share portfolio and how the teacher 'manifestly worked for' his profits on his share portfolio was seen as proof of a change in intention, whereby the teacher was actively trading with the shares and making a

profit. In terms of the Clicks ClubCard Loyalty Programme, the earning as well as redemption of the points needs to occur frequently to prevent a customer's points from expiring in 12 months, as well as the limited two-monthly time periods when cashback is available (as mentioned in Section 2.3) which is an indication that the points are earned and redeemed frequently, and therefore the amount may be said to be revenue in nature.

However, there is no absolute decision as to whether the points are revenue or capital in nature in the hands of the customer. This is due to the argument being based on the intention of the customer, which is a practical issue by virtue of the fact that different customers have different intentions with their earned rewards. Furthermore, the intentions of a taxpayer are subjective and cannot be analysed objectively without having to analyse each customer's intention of their purpose of earning points individually, which would be time consuming and impractical.

2.4.6 Conclusion on gross income

Therefore, based on the above, it is impractical to definitively determine whether the points earned by Clicks ClubCard members will be capital or revenue in nature. Thus, for the purposes of this study, the researcher will apply the recommendations made by Swanepoel and Pidduck (2020:96), that the rewards received be a special inclusion into gross income. This would then override the possibility of the rewards being of a capital nature, and thus it will ensure that CLP rewards will be taxable as the special inclusion will override the general 'gross income' definition. The introduction of a special inclusion for CLP rewards will also assist with the timing of the inclusion of the rewards into gross income due to the difference in the time when the rewards accrue to a customer and when the rewards are received by a customer. The introduction of the special inclusion will not depart from current legislation due to the fact that Sections 7B and 24M override the timing rules and specify the time of accrual in order to have certainty regarding when an amount should be taxed. The special inclusion for the CLP will allow for the inclusion into gross income to be on the date that the points are awarded to the customer, and not on the date that the points are redeemed by the customer.

2.5 INTERNATIONAL TAX CONTEXT

Based on the uncertainty of the taxation of CLP rewards in terms of the gross income definition in the hands of the customer, it was suggested that South African tax legislation

be updated to avoid *fiscal* leakages (Swanepoel & Pidduck, 2020:98). However, there have been international tax advancements regarding CLPs through the issuance of guidance or some form of legislation to govern CLPs (Swanepoel & Pidduck, 2020:85).

Guidance was provided in Canada related to CLPs; however, the guidance was limited to CLPs related to employment and no mention is made of CLP rewards earned that are not related to employment. The Canadian Revenue Authority states that employees, when travelling for business, are allowed to collect flyer points or air miles on their personal credit cards, however the value of the rewards is normally not taxed unless specific requirements are met (Canada Revenue Agency, 2022); (Swanepoel & Pidduck, 2020:86). Similarly, the Internal Revenue Service (IRS) of the United States of America does not wish to tax frequent flyer miles or other rewards obtained by virtue of employment, but this relief does not always apply and will not apply if the frequent flyer miles or other promotional benefits are linked to an employment relationship (Internal Revenue Service: United States of America, 2002); (Swanepoel & Pidduck, 2020:86). In addition, the IRS proposed a new set of corporate tax laws in September 2019 for the providers of CLPs, but it is still uncertain as to whether there will be personal tax rules in the future for the customers who receive the rewards (Swanepoel & Pidduck, 2020:86).

There has also been progress in Australia, whereby a Tax Ruling (TR 1999/6) and a Tax Determination (TD 1999/34) were issued (Swanepoel & Pidduck, 2020:86). According to TD 1999/34, CLP rewards received by customers as a result of private expenditure are not subject to tax. However, CLP rewards that relate to business activities or are as a result of employment are taxed, as are fringe benefits (Inland Revenue: New Zealand Government, 2004; Office, 2015).

Furthermore, New Zealand issued a Product Ruling (BR PRD 16/03) establishing that no income arises for the customer from CLP rewards, even if the rewards are transferred to a savings account or scheme (Davis, 2016). An additional Public Ruling (BR Pub 04/05) provides guidance for when fringe benefits are provided, and the fringe benefits include CLP rewards. However, there is also no guidance on the taxation of CLP rewards by the customers (Smith, 2004; Swanepoel & Pidduck, 2020:87).

Therefore, despite the fact that the experiences of Canada, the United States of America, Australia and New Zealand may be addressing the taxation of CLPs through the use of

fringe benefits, VAT and the taxation of the providers of CLP rewards, there has been little done in order to address the tax considerations related to the receipt of these rewards in the hands of a customer (Swanepoel & Pidduck, 2020:98).

In order to address the current non-taxation of CLP rewards in the hands of a customer in South Africa as well as in other jurisdictions, it is beneficial to understand the various mechanisms which a country could use to tax the CLP rewards, in order to establish the most equitable and relevant method of taxation and a corresponding tax rate to apply to the value of the CLP rewards earned by the customer.

2.6 UNDERSTANDING THE VARIOUS TAX MECHANISMS

In light of the above discussion, it is evident that the CLP rewards earned by a customer constitute gross income for the purposes of the Act, which should be subject to income tax in terms of the gross income definition. As discussed in Chapter 1 of this study, CLPs have become increasingly important in South Africa with 74% of South Africans who are economically active using CLPs, and that the number of CLPs that South Africans belong to was 8,7 programmes on average in 2021 (Cromhout, 2021:6). Furthermore, it has been discussed that there is a tendency of not taxing CLP rewards in the hands of a customer not only in South Africa, but in other jurisdictions too. Therefore, there is a large portion of the tax base that is not being taxed from which the *fiscus* could obtain additional tax revenue. However, though the implementation of taxing a customer directly on their CLP rewards may be perceived by the customer as an additional tax burden, it should rather maintain the integrity of the CLPs (Pidduck *et al.*, 2019:640). The taxation of the CLP rewards should not disincentivise customers from participating in CLPS or destroy the value which is derived by customers, providers and the *fiscus* (Pidduck *et al.*, 2019:640). Therefore, based on prior research, a recommendation for a progressive withholding tax was made (Pidduck *et al.*, 2019:641).

The proposal for a withholding tax system was due to the fact that it allows large amounts of tax revenue to be collected quickly, by receiving the tax directly when income is paid in the current year (Saptono & Aditama, 2022:109). Moreover, the use of a withholding tax decreases the administrative burden for SARS through the utilisation of existing structures of withholding taxes, as well as ease for customers upon their submissions of their tax returns through the use of electronic and pre-populated systems (Pidduck *et al.*, 2019:641).

In addition, the use of a withholding tax facilitates greater compliance by taxpayers where research has revealed that compliance, when subject to a withholding tax, is near to perfect at a rate of 99%. In contrast, compliance with income that is not subject to a withholding tax or any third-party information is less than 40% (Thomas, 2019:90). Moreover, the use of a withholding tax allows all customers who receive CLP rewards to be subject to tax, as opposed to only those who are registered for tax in South Africa (Pidduck & Odendaal, 2013b:1528). Therefore, the *fiscus* would be able to collect tax, even if taxpayers fail to file returns, and a withholding tax therefore enables additional taxpayers to be brought into the tax system (Thomas, 2019:91).

Despite the fact that a withholding tax will be withheld by the provider, the CLP rewards, as discussed earlier, need to be included into the gross income of the customer. Currently, South Africa makes use of IRP5s and IT3bs that include the income of individuals and these forms are used to complete the tax returns by often pre-populating the tax return of the individual (Pidduck *et al.*, 2019:641). Therefore, based on a recommendation made in prior research, a similar form should be used for the purposes of recording the CLP rewards received by customers when they do their tax returns. The provision of this form essentially means that providers will need to provide customers with a form each year for the inclusion of their CLP rewards that were earned by them to be included in their individual return, in order to calculate the customer's taxable income to which the current progressive tax tables can be applied (as seen below). The tax withheld on the CLP rewards will then be treated as prepayments of the normal tax liability, as is the case with PAYE withheld by an employer on remuneration (Pidduck *et al.*, 2019:641). The following Figure 6 depicts the 2021 progressive tax table, as this represents the last year in which the potential tax revenue is calculated for this study:

Figure 6: 2021 tax year progressive tax table

Taxable income (R)	Rates of tax (R)
1 – 205 900	18% of taxable income
205 901 – 321 600	37 062 + 26% of taxable income above 205 900
321 601 – 445 100	67 144 + 31% of taxable income above 321 600
445 101 – 584 200	105 429 + 36% of taxable income above 445 100
584 201 – 744 800	155 505 + 39% of taxable income above 584 200
744 801 – 1 577 300	218 139 + 41% of taxable income above 744 800
1 577 301 and above	559 464 + 45% of taxable income above 1 577 300

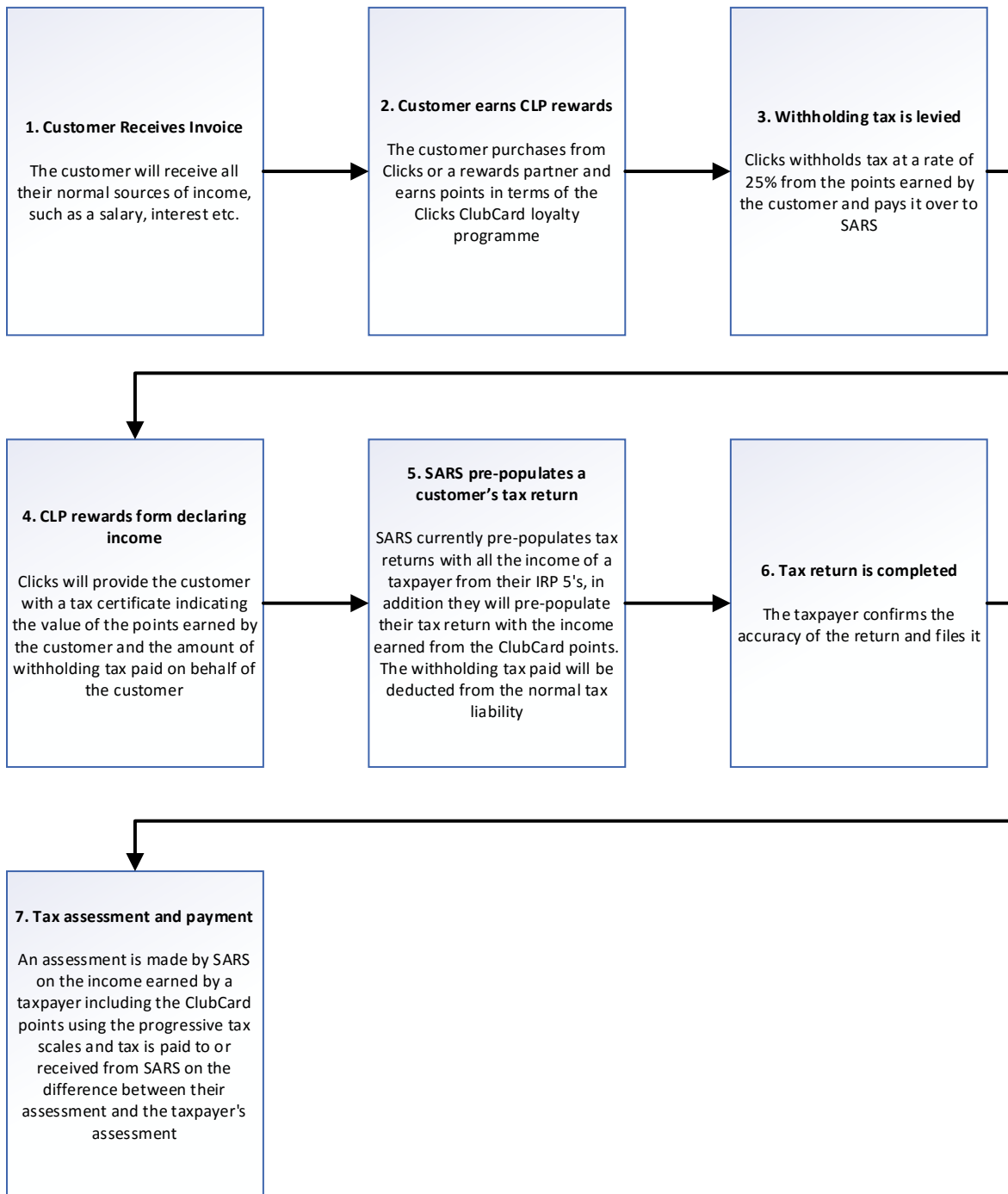
Source: (South African Revenue Service, 2021)

The aforementioned proposal is currently being used by SARS and therefore, it is said to reduce the administrative burden for SARS. SARS makes use of other withholding taxes and therefore they have the structures in place to levy a withholding tax. Types of taxes currently in place include a withholding tax on royalties at 15% in terms of Section 49 of the Act, a withholding tax on foreign entertainers and sportspersons at 15% in terms of Section 47D, a withholding tax on interest at 15% in terms of Section 50B of the Act, and a withholding tax on dividends at a rate of 20% in terms of Section 64E of the Act. Furthermore, SARS makes use of a similar mechanism as the one proposed to be used and that will be used for the purposes of this study, and it is the Section 35A withholding tax in the Act which relates to amounts that are required to be withheld when a non-resident sells immovable property that is situated in South Africa. In terms of Section 35A, any purchaser of immovable property from any other person who is not a resident, is required to withhold an amount of withholding tax. The amount of withholding tax ranges from 7,5% to 15% depending on whether the non-resident seller is a natural person, a company or a trust. This amount that is withheld from any payment to the seller is an advance payment in respect of the seller's liability for normal tax for the year of assessment in which the property is disposed of by the seller. Therefore, the amount of withholding tax is deducted in a taxpayer's return at the end of a year of assessment from the normal tax calculated on the return. In light of this, it is clear that SARS already has a mechanism that is currently working and therefore it can be applied to CLP rewards to increase tax revenue for the *fiscus*.

In light of the above, the withholding tax as a progressive tax would be based on current systems in place. Essentially, Clicks will be required to withhold the upfront withholding tax at a flat rate of 25% on the Clicks ClubCard points and pay it over to SARS. Therefore, the

customer will receive the cashback value net of tax. Clicks will then be required to issue a tax certificate to each customer at the end of a year of assessment which would include the value of the cashback that accrued to the customer in the year of assessment, as well as the amount of withholding tax withheld by Clicks and paid over to SARS. These tax certificates will subsequently be pre-populated into the customer's gross income on their individual tax return. Furthermore, the amount of withholding tax already paid by the customer will also be pre-populated onto the customer's tax return to reduce their normal tax liability. However, depending on what tax bracket the customer falls within, the customer may either get an additional assessment of the cashback if their progressive tax rate is greater than 25%, or the customer will obtain a refund on the difference between their progressive tax rate and the flat rate of 25% of the withholding tax. As a result of the aforementioned explanation, the implementation of the proposed system may result in taxpayers incurring a higher tax liability upon assessment of their tax returns and on the other hand, some taxpayers may receive a tax refund (Pidduck *et al.*, 2019:641). This example is illustrated below:

Figure 7: Illustration of the proposed taxation mechanism for Clicks



Source: Own design

In addition to the aforementioned example, an example was provided by (Pidduck *et al.*, 2019:641). A taxpayer earns R100 in CLP rewards; R25 will be paid directly to SARS as the withholding tax and therefore the customer receives R75 worth of rewards. If a taxpayer's taxable income falls within the first progressive scale of R1-R205 900, they would receive a refund of up to 7% of their income. If a taxpayer's taxable income falls between R205 901

and R321 600, they would be required to pay an additional 1% of tax. Therefore, taxpayers who are taxed at a higher scale and have a tax rate greater than 25% would be required to pay the difference upon assessment, whereas those taxed at a lower progressive tax rate would be refunded upon assessment. According to (Cromhout, 2021), the majority of the customers are higher income earners, as 80% of the people who earn more than R80 000 per month participate in CLPs. Subsequently more than 75% of the people who earn between R20 000 and R80 000 participate in CLPs, and then finally only 68% of people earning between R10 000 and R20 000 participate in CLPs. Therefore, the tax revenues from CLP rewards will have a lower impact on the poorer households due to the lower level of participation. However, the additional tax on CLP rewards may cause customers to resist the tax on the CLP rewards (Pidduck *et al.*, 2019:642). In light of this and the example provided, it is evident that a rate has to be set that is high enough to avoid excessive refunds to customers within the lower and middle progressive tax scales, and low enough to not create an excessive tax burden on the lower income earning customers. Consequently, an appropriate rate to be used is 25% to mitigate the risks associated with customers ceasing to participate in CLPs, and in incurring excessively higher tax liabilities for customers when taxing the CLPs (Pidduck *et al.*, 2019:643). Furthermore, the use of the 25% withholding tax and having pre-populated forms like the IRP5s, will mitigate the risk of tax avoidance and resistance to a great extent. Therefore, the implementation of the progressive tax rate to CLP rewards will generate greater tax revenue for the *fiscus* (Pidduck *et al.*, 2019:643).

2.7 CONCLUSION

In this chapter, Phase 2 of this study was completed, whereby the literature review was done on the understanding of CLPs in general, the various mechanisms of taxation, the taxation of CLPs in other jurisdictions, and then the taxation of CLPs in South Africa in accordance with the gross income definition through the use of existing literature, legislation and case law. Moreover, the Clicks ClubCard Loyalty Programme was subsequently applied to the aforementioned aspects that were researched in the literature review of this study, excluding the taxation of CLPs in other jurisdictions. Therefore, in Section 2.2, the definition of a CLP was applied to the Clicks ClubCard Loyalty Programme to determine whether it was a CLP. Thereafter, the specifications of the Clicks ClubCard Loyalty Programme were further applied to the gross income definition in Section 1 of the Act, to determine whether the value of the points issued by Clicks to their ClubCard members would be gross income as defined, and when it would be included in gross income and then taxed. Finally, the specifications of

the Clicks ClubCard Loyalty Programme were then applied to the proposed mechanism of taxation to gain a better understanding of how the tax would be collected by the *fiscus*.

For the purposes of the larger study and this study, a predefined definition of a CLP was required to which the top 25 most used CLPs in South Africa as per the 2021 Truth & BrandMapp Loyalty Whitepaper were compared, in order to select the sample of CLPs that would be studied in the larger study. Furthermore, the predefined definition was required for the purposes of this study to apply the definition to the Clicks ClubCard Loyalty Programme to ensure that the Clicks CLP was a CLP for the purposes of this study, in order to address the research problem of this study. Three definitions were relied upon to obtain the definition of a CLP for the purposes of this study, namely the definitions in terms of a “rewards programme” as defined by (Burnstone & Olivier, 2018), the CLP definition by (Brink, 2014)), and the definition of ‘loyalty programmes’ in Section 35 of the CPA. All three of the aforementioned definitions are similar and explain a CLP as an arrangement where a customer will transact with the provider and subsequently earn CLP rewards that are issued to the customer to utilise against future purchases where additional goods and services are obtained. The Clicks ClubCard Loyalty Programme satisfied the definition of a CLP for the purposes of this study, due to the fact that Clicks customers who are ClubCard members accumulate benefits in the form of points and then the accumulated points are converted to cashback to receive goods from Clicks or goods or services from any rewards partner. Therefore, the cashback is utilised by the customers to receive a discount on any future purchases of goods or services at Clicks or a rewards partner.

The specifications of the Clicks CLP as mentioned above were obtained and analysed in Section 2.3 of this study. The terms and conditions and the Clicks website were used to obtain the information about the Clicks ClubCard Loyalty Programme. It was established that the CLP is ranked second in the top 25 most used CLPs in South Africa (Cromhout, 2021:16). Furthermore, it was also ranked ninth in the top 15 CLPs that South Africans cannot live without (Cromhout, 2021:24). Moreover, the Clicks ClubCard was nominated as the best loyalty programme at the South African Loyalty Awards for 2021 as well as in 2020 (Clicks, 2020b:37; Clicks, 2021b:19). The Clicks ClubCard has a significant impact on the lives of South Africans and is widely used by South Africans, with the number of members in 2021 being 9,5 million (Clicks, 2021b:26). In addition to the above, Section 2.3 analysed the ways in which a customer can earn points, namely how the customer can earn the points,

the utilisation of the points, as well as the redemption of the points as cashback that occurs when customers have earned 50 points by the cashback dates. Furthermore, the rewards partners with whom Clicks have agreements were discussed, to determine the manner in which points can be earned at the rewards partners.

Subsequent to obtaining the detailed understanding on the Clicks ClubCard Loyalty Programme, the details were applied to the gross income definition to determine whether the points earned by customers meet the definition of gross income to be included in their tax return. It was concluded in Section 2.4.4 that the rewards earned by a customer are received by a customer when the points are utilised. Therefore, when they utilise their cashback and the value of the rewards accrue to a customer, they are issued to a customer when they purchase goods or services at Clicks or at a rewards partner of Clicks. However, to determine whether the value of the rewards earned were of a capital nature or not, it was established that due to the subjectivity involved in determining each individual customer's intention it was recommended by (Swanepoel & Pidduck, 2020:96) that the rewards received by the customer should be a special inclusion into gross income.

In addition to the understanding obtained of the taxing authority of South Africa in terms of gross income, other jurisdictions' taxation of CLPs was researched. It was determined that Canada, the United States of America, Australia and New Zealand are addressing the taxation of CLPs through the use of fringe benefits, VAT and the taxation of the providers of CLP rewards. However, there has been little done in order to address the tax considerations related to the receipt of these rewards in the hands of a customer (Swanepoel & Pidduck, 2020:98). In order for other jurisdictions as well as South Africa to commence taxing CLP rewards earned by customers, an appropriate method to tax and an appropriate tax rate should be established to start taxing CLP rewards. The proposed mechanism to tax CLP rewards was based on a recommendation made by (Pidduck *et al.*, 2019) through the use of a flat rate of withholding tax at 25% as a progressive tax in order to establish equity and to not disincentivise customers from participating in CLPs, as customers will not have any additional administrative burden and the tax will be withheld before they receive their cashback. Furthermore, due to existing withholding tax structures and the withholding tax in terms of Section 35A of the Act, it is almost identical to the operation of the proposed mechanism of taxing for the purposes of this study. For the purposes of this study, the 25% of tax will be withheld by Clicks. Thereafter, a customer will receive a document at the end

of each year of assessment which will indicate the value of the rewards earned in the year that will automatically be pre-populated on their tax return. The 25% withheld will be deducted from normal tax as a prepayment of their tax liability.

CHAPTER 3: DATA ANALYSIS AND RESULTS

3.1 INTRODUCTION

The aim of this study is to quantify the potential tax revenues from the taxation of CLP rewards received by customers, as applied to the Clicks ClubCard Loyalty Programme. The focus of Chapter 2 was that of providing an overview of the operation of CLPs and the Clicks ClubCard, as well as an analysis of the gross income definition's applicability to the Clicks ClubCard points. In this chapter an understanding of the relevant accounting treatment and disclosure as prescribed by IFRS 15 is provided, in order to facilitate the quantification of the potential tax revenues from the Clicks ClubCard Loyalty Programme. In doing so the financial information relating to the Clicks CLP are extracted and analysed from the financial statements of Clicks from 2018 to 2021. Chapter 3 therefore comprises Phase 2 of the study and encompasses the longitudinal case study and data analysis.

3.2 UNDERSTANDING THE ACCOUNTING TREATMENT

After understanding the typical operation of a CLP as contained in Chapter 2 (Phase 1 of the study), the accounting treatment may be described with reference to IFRS 15. The accounting treatment of CLP benefits is prescribed by IFRS 15 which mandates that revenue from awarding rewards in CLPs must be separately recognised and disclosed, which was not the case in the previous accounting standard, IFRIC 13 (IASB, 2021 para B39-B89). The accounting of revenue prescribed by IFRS 15 may be summarised into five steps (IASB, 2021:A890), namely:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

A brief description of the operation of these steps, followed by an example for illustration purposes, is included below.

Step 1 provides guidance with regard to identifying contracts and customers, while Step 2 indicates how performance obligations must be identified. A performance obligation is each promise in the contract to transfer a good or service to the customer (IASB, 2021:A931).

Step 3 provides guidance on determining the price of the transaction, while Step 4 indicates how the total transaction price must be split amongst performance obligations. Step 5 indicates when revenue may be recognised. The general principle for accounting purposes is that revenue may only be recognised once the benefits have been transferred to the customer. Specific guidance of the application of IFRS 15 to CLPs is given in Appendix B to the standard (IASB, 2021 para B39-B42).

In brief, IFRS 15 indicates that the sale of goods and the earning of CLP rewards are two separate performance obligations (IASB, 2021 par B40). The transaction price is considered the full price of goods sold and must be allocated between the two performance obligations, namely (1) the sale of goods and (2) the CLP rewards awarded to the customer (IASB, 2021 par B42). Revenue relating to the sale of goods may be recognised upon time of the sale, but the portion of revenue allocated to CLP rewards must be recognised as a 'contract liability' and may only be recognised as revenue when the rewards have been utilised by the customer (redeemed) or have expired (IASB, 2021 par 31).

A 'contract liability' is the IFRS 15 term used for the 'liability' that is created for an entity's obligation to transfer goods or services to a customer, for which payment has already been received by the company (IASB, 2021:A931). IFRS 15 requires that a portion of the consideration from the transaction be allocated to the awarding of CLP rewards as a form of deferred revenue, since the consideration for these rewards is deemed to have already been received. Therefore, the provider has an obligation to transfer the CLP rewards to the customer and the contract liability is necessary to account for this obligation. Essentially, the contract liability is an account to temporarily store the value of CLP rewards as these are 'owed' to the customer (IASB, 2021 para B39-B42).

Notwithstanding the above, it is evident that the contract liability will become revenue in the hands of the provider at a future date, either upon redemption by the customer or expiry of the points. The value of the revenue relating to the CLP rewards is based on the provider's expectation of how much of the CLP rewards will be exercised or redeemed during the financial year. This expectation is determined by each individual provider by analysing past redemption of CLP rewards to predict future redemption. However IFRS does not provide detailed guidance on how this estimate must be made (IASB, 2021 para B46). The calculation of expectation is not required to be disclosed by the provider, as no guidance is

provided in IFRS 15 regarding this. Furthermore, the CLP reward revenue may only be recognised as revenue when this reward is exercised (redeemed by the customer) or has expired (IASB, 2021 para 31).

A short example to aid the explanation of the contract liability recognised for the awarding of CLP benefits follows:

Example: Illustration of IFRS 15

Facts

Company A operates a CLP where customers obtain 10 rewards points for each R100 spent, and each reward point is valued at R1. At the start of their financial year, Company A has an opening balance of R200 on their contract liability. During the current financial year, the customers purchased R3 000 worth of goods. It is expected that only 90% of CLP rewards points earned will be redeemed in future. This expectation is based on past experience of Company A. During the current financial year 250 CLP rewards points were redeemed and 50 CLP rewards points expired.

Disclosure

Company A would be required to disclose the R200 opening balance of the contract liability and add the additional allocation of CLP rewards points (as a result of purchases made during the year by customers) to this contract liability balance.

Calculation of additional CLP rewards points expected to be utilised:

In this example the portion of the purchases made by customers (R3 000) must be allocated to the contract liability and is calculated as follows:

- The ratio of allocating CLP rewards points is 10 rewards points for every R100, thus customers earn 300 rewards points on these purchases (R3 000 spent / R100 X 10 points). However, Company A only expects 90% of CLP rewards points to be redeemed by customers, therefore only 90% of the CLP rewards points earned must be included in the contract liability. Therefore, the CLP rewards points expected to be redeemed are calculated at 270 points (300 points earned X 90%). As 1 point is valued at R1, the 270 points is equal to R270.

Proration between contract liability and revenue

Although customers pay R3 000, they obtain goods valued at R3 000 and CLP rewards points valued at R270. Therefore, the R3 000 payment must be pro-rated between the revenue and the contract liability. In order to prorate the R3 000 received from customers in this example, the proration is calculated as follows for the example:

- The total value is R3 270 (R3 000 purchases + R270 of CLP rewards points expected to be redeemed). The value allocated to CLP rewards points expected to be redeemed is R248 ($R3\ 000 \times R270 / R3\ 270$) which will be added to the contract liability for accounting purposes.
- Moreover, the value allocated to revenue from sales is R2 752 ($R3\ 000 \times R3\ 000 / R3\ 270$) which will be recognised as revenue from sale of goods for accounting purposes.

Disclosure and calculation of CLP rewards points utilised

Once the value of CLP rewards points expected to be utilised in the current year has been added to the contract liability, the CLP rewards points utilised and expired in the current year must be deducted from the contract liability. However, the amount of revenue recognised in a year will include the value of the points utilised and the value of points that have expired. In this example 250 CLP rewards points (or R250) were utilised, and 50 CLP rewards points (or R50) expired. Both these CLP rewards points utilised and expired should be deducted from the contract liability in order to calculate the closing balance for the contract liability. In this example the closing balance of the contract liability is calculated as follows:

R148 (R200 opening balance plus R248 awarded and expected to be utilised less R250 redeemed less R50 expired).

The calculation and disclosure of the contract liability as described in the illustrative example is provided in Table 4 below.

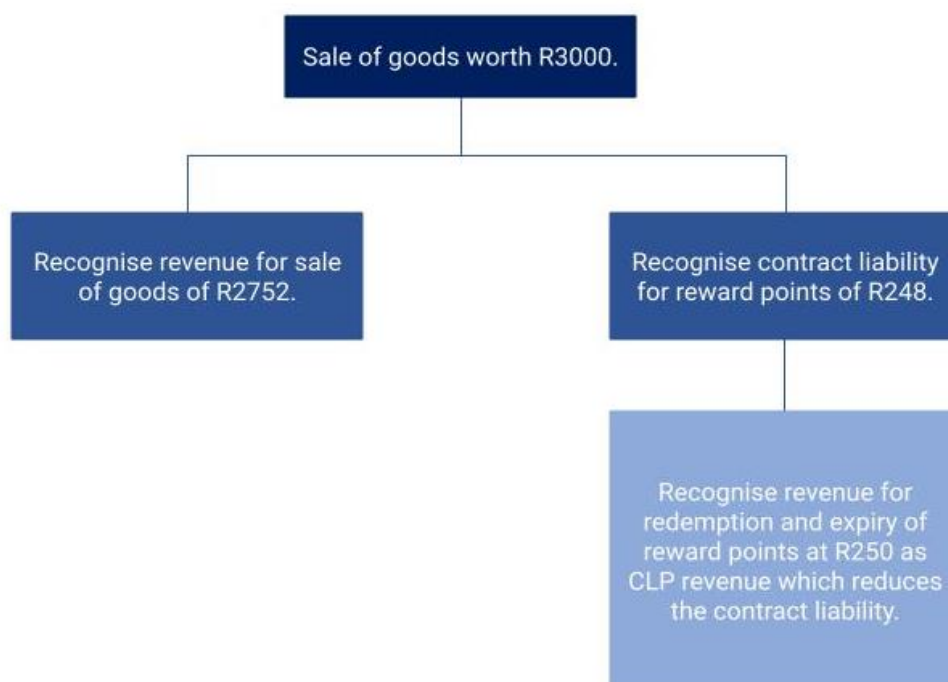
Table 4: The IFRS 15 implications applied to the illustrative example

	Reconciliation of movement in the contract liability account	Rand
A	Opening balance of the contract liability	200
B	Plus, CLP rewards points earned in the current year that are expected to be utilised.	248
C	Less CLP rewards points utilised and expired in the current year	(300)
D	Equals closing balance of the contract liability	148

Source: Own design

A summary of the revenue and contract liability as described in the illustrative example are presented in Figure 8 below.

Figure 8: Illustration of IFRS 15 applied to the illustrative example



Source: Own design

3.3 ANALYSIS OF CLICKS CLUBCARD LOYALTY PROGRAMME

In order to quantify the potential tax revenue for the Clicks ClubCard Loyalty Programme, the annual financial statements of the Clicks Group Limited need to be analysed in order to obtain the value of the points issued each year and then to subsequently apply the rate of tax to the value of the points issued. Based on the example illustrated above, the financial statements of Clicks will be analysed to obtain the value of R248 (B in Table 4) which will

be calculated as the balancing figure due to the fact that companies only disclose the opening balance of the deferred income (A in Table 4), the closing balance of the deferred income (D in Table 4) and the revenue recognised (C in Table 4) which is the value of the points that have been redeemed and the points that have expired. Based on the fact that the points are required to be taxed at the earlier of receipt and/or accrual (as explained in Chapter 2), the actual value of points is required which in the example is the R300. However, due to the complexity of the calculation that is required to arrive at the value of points issued (in other words the R300) and the nature of information required for this calculation that is discussed in the larger study, it is not possible to arrive at that value for this study. Therefore, an estimated value of the actual points issued is required to calculate the potential tax revenue. Furthermore, the potential tax revenue is calculated through the use of a flat rate of withholding tax at 25%. Thereafter, it was proposed that the most effective method to tax the CLP rewards is to include the value of the points issued into a Clicks customer's tax return if they are a Clicks ClubCard member, and then the withholding tax at 25% will be subtracted from the customer's normal tax as a pre-payment of tax (as explained in Chapter 2).

In order to obtain the value of the points issued by Clicks, an understanding of the Clicks accounting policy regarding their ClubCard points needs to be obtained. It is necessary to determine whether they comply with IFRS 15 by recording the issuance of points as a separate performance obligation, which will only occur if the points provide the customers with a material right as discussed in Chapter 2. The ClubCard points earned by customers provide them with a material right as they are able to obtain a cashback in future, which results in a performance obligation to be fulfilled by the group, due to the fact that the customer will not physically pay for goods in future, but they will rather utilise their accumulated cashback. The transaction price is subsequently allocated to the product and the points on a relative standalone selling price basis. The standalone selling price of the loyalty points is an estimated price whereby the group considers the likelihood that the customer will redeem the points. The likelihood is expressed as the redemption rate which is based on historical experience by Clicks from previous points that were issued and redeemed, which is subject to uncertainty. This expected standalone price for their points is recognised as a contract liability until the points are redeemed or until they expire. Revenue is recognised upon redemption of the points by the customer, as well as if points expire within the 12-month period for which they are valid (Clicks, 2021a:21).

The aim of this study is to value the points issued to Clicks customers who are ClubCard members in each of the 2018 to 2021 financial years. For normal tax purposes, this non-cash amount that is awarded to customers has to be valued in order for a taxpayer to include the corresponding value into their gross income at the earlier of receipt or accrual (as explained in Chapter 2). In order to obtain this value, which in the example above is the R300, the trade and other payable note and specifically the loyalty programme deferred income in the financial statements of each relevant year was analysed to obtain the value by which the deferred income increased in that year as a result of the expected amount payable from the issuance of points in the year. This would be the R248 as stated in the example above. Thereafter, the redemption rate of points issued in each of the respective years will need to be obtained from the financial statements, which in the above example is the 90%, so that the value of the points issued to customers in the specific year can be calculated.

In light of the above, Clicks discloses their loyalty programme deferred income in their financial statements in their trade and other payables note. The opening and closing balance is reflected in the note, which is then referenced to an additional note that indicates additional specific information related to the Clicks ClubCard Loyalty Programme. In this additional note, the redemption rate for each year is provided and it varies each year. In addition to this, in the 2021 financial year the amount of revenue recognised for the year is also disclosed. Therefore, for the 2021 year it is possible to calculate the expected value of the points issued which is the R248 in the example as the opening balance, and the closing balance and the revenue recognised is provided. Furthermore, the redemption rate for 2021 of 90% is disclosed and it can be used to calculate the value of the points issued. However, the financial information regarding the value of the revenue recognised for the year is not provided from 2018 to 2020. All of the financial information that is provided in the financial statements from 2018 till 2021 is tabulated below:

Table 5: Disclosure of loyalty programme deferred income by Clicks in their financial statements

	2018	2019	2020	2021
Opening balance of deferred income	(R97 190 000)	(R66 084 000)	(R94 733 000)	(R109 052 000)
Revenue recognised for the year	Not disclosed	Not disclosed	Not disclosed	R106 000 000
Closing balance of deferred income	R66 084 000	R94 733 000	R109 052 000	R124 630 000
Redemption rate	68%	68%	91%	90%
Value of loyalty points issued expected to be redeemed	Unable to calculate	Unable to calculate	Unable to calculate	R121 578 000

Source: Own design (Clicks, 2018a:54; Clicks, 2019a:54; Clicks, 2020a:56; Clicks, 2021a:55).

Therefore, based on the above, it is clear that this is not a reliable method to calculate the potential tax revenue that the *fiscus* could have collected as a result of taxing the Clicks ClubCard Loyalty Programme, as there is insufficient financial information for 2018 till 2021. Furthermore, the R106 million of the revenue recognised in 2021 specifically relates to the revenue recognised in 2021 from the deferred income opening balance, and therefore does not include any revenue recognised for points that were issued in 2021 and also redeemed in 2021. Thus, the revenue recognised is only relating to the points that were in issue at the beginning of the year as a result of being issued in 2020 and does not relate to all the points issued throughout the year from the total revenue earned by Clicks in 2021.

In light of the above, an alternative method will be used to value the potential tax revenue that the *fiscus* could have collected as a result of taxing the Clicks ClubCard Loyalty Programme in order to determine a more reliable estimate. This will be done by using the integrated reports from 2018 to 2021 and the terms and conditions of the Clicks ClubCard Programme which is found on the Clicks website. In the integrated reports the percentages of revenue that are attributable to ClubCard sales are provided. Therefore, it is possible to

calculate how much of the total revenue of Clicks is attributable to revenue that was made by customers who are Clicks ClubCard members, and therefore would have obtained points on their purchases. The total revenue figure will be obtained from the annual financial statements. In addition to this, the terms and conditions of the Clicks ClubCard state that for every R5 that a customer spends at Clicks, they will receive one point and each point is worth R0,10. Therefore, to get the value of points issued we will use the amount of revenue that is attributable to the ClubCard sales divided by the R5 to get the number of points issued and multiply it by R0,10 to get the value of the points issued in each year. To commence with the calculation described previously, the proportion of ClubCard sales to total sales is required. The percentages of the ClubCard sales to the total sales are provided as follows in the integrated report:

Table 6: Percentages of ClubCard sales to total sales per the integrated reports

Year	Percentage of ClubCard sales to total sales
2021	80,2%
2020	78,2%
2019	77,6%
2018	77,2%

Source: Own design (Clicks, 2018b:34; Clicks, 2019b:49; Clicks, 2020b:50; Clicks, 2021b:48)

Furthermore, the following table represents the calculation of the total value of the ClubCard sales:

Table 7: Value of the total ClubCard sales

	2018	2019	2020	2021
Total revenue	R30 982 592 000	R33 312 589 000	R36 530 713 000	R39 730 873 000
Percentage of ClubCard sales to total sales	77,2%	77,6%	78,2%	80,2%
Total ClubCard Sales	R23 918 561 020	R25 850 569 060	R28 567 017 570	R31 864 160 150

Source: Own design (Clicks, 2018a:31; Clicks, 2018b:34; Clicks, 2019a:31; Clicks, 2019b:49; Clicks, 2020a:33; Clicks, 2020b:50; Clicks, 2021a:33; Clicks, 2021b:48)

In order to now calculate the value of the points issued, the total ClubCard sales will be divided by R5 to get the number of points and then the number of points will be multiplied by R0,1 to get the value of the points which is tabulated below:

Table 8: Value of points issued

	2018	2019	2020	2021
Total ClubCard Sales	R23 918 561 020	R25 850 569 060	R28 567 017 570	R31 864 160 150
Number of points per Rand value	/R5	/R5	/R5	/R5
Value of one point	R0,10	R0,10	R0,10	R0,10
Total value of points issued	R478 371 220	R517 011 381	R571 340 351	R637 283 203

Source: Own design using figures from Table 7 and the point-earnings ratio in Section 2.3

However, in light of the above, this method of valuing the total value of the points issued is an underestimation and therefore, a conservative estimate due to two reasons. Firstly, the revenue used to calculate the number of points issued was only the revenue of Clicks and not of the revenue of the rewards partners that Clicks has agreements with, whereby the customers who are Clicks ClubCard members earn points based on the value of their purchases at the rewards partners. The value of the points issued by the rewards partners will be recognised as revenue in the books of the rewards partner and cannot be found in the financial statements of Clicks, except as an expense when the points are utilised, as discussed below. Secondly, the number of points were calculated in terms of the normal terms and conditions where one point is awarded per R5, which is not always used as persons 65 years and older may earn double points on Wednesdays and there are certain promotions that Clicks may have that allow customers to earn double points. Despite the fact that this is an underestimation, the value of R637 283 203 that was calculated can be said to approximate the actual amount. In 2021, the revenue recognised in the trade and other payable note, during the year related only to the opening balance of the deferred income which amounted to R106 million as reflected in Table 5. In addition to this, the actual value of the cashback issued per year is disclosed in the integrated report and is the following:

Table 9: Value of cashback paid to ClubCard members

	2018	2019	2020	2021
Cashback paid to ClubCard members	R442 million	R504 million	R545 million	R504 million

Source: Own design (Clicks, 2018b:5; Clicks, 2019b:5; Clicks, 2020b:9; Clicks, 2021b:5)

The total value of cashback paid in Table 9 represents the value of the points actually redeemed in that year. This total value of cashback will refer to the cashback paid in terms of points issued at Clicks, as well as at the rewards partners that also offer the ability to earn Clicks ClubCard points. However, this value could not be used to calculate the potential tax revenue, as then it results in taxing the points when they are redeemed (received) and not when it accrues to the customers. Therefore, if the value of R637 283 203 is compared to the R504 million it is only 26,45% higher. This can be said to be reasonable given the fact that the value of the points issued in a year as calculated in Table 8, should include the value of the points redeemed which is the R504 million, as well as the points not yet redeemed which is R124 630 000, being the closing balance of the deferred income resulting in a difference of R8 653 203 from the R637 283 203. This difference is the possible value of the points that were subject to double points as well as the value of points that were earned from rewards partners and was calculated with reference to the reward partners' revenue as discussed in Chapter 2. The R8 653 203 represents 1,36% of the R637 283 203 and therefore, the value of points as indicated in Table 8 can be said to approximate to the actual value. However, it is a conservative estimate based on the above omissions.

Despite the aforementioned underestimation, to calculate the value of the potential tax revenue that the *fiscus* could have collected from the taxation of the Clicks ClubCard Loyalty Programme, this value of the total points issued needs to be multiplied by a rate of tax. Based on the discussion in Chapter 2 of this study, a withholding tax will be applied at the rate of 25%. This withholding tax will be applied to the value of the points issued in each respective year in order to obtain the potential amount of tax revenue that the *fiscus* could have received from the Clicks ClubCard Loyalty Programme. Based on the discussion in Section 2.6 of this study, this taxation at 25% would be withheld by Clicks whereafter they would be required to provide a document to the customers at the end of each year of

assessment which would state the value of the points that each customer received. At the end of a year of assessment, this value would then be pre-populated into the customer's tax return and would form part of their gross income resulting in their normal tax being calculated on their income including the value of their points received by them. The 25% tax that has already effectively been paid by the customer would be treated as a prepayment towards the tax payable by each customer according to their marginal rate as per the progressive tables. Thereafter, a customer would either obtain a refund if their marginal tax rate is less than 25%, or they may need to pay additional tax if their marginal tax rate is greater than 25%. In light of the above, this proposed method of taxation provides the following benefits and is the reason for the adoption of this method to calculate the value of the potential tax revenue (Pidduck *et al.*, 2019:641):

1. This method of taxation allows for progressive tax to be collected, which is consistent with the progressive tax goals of the government.
2. Existing structures at SARS can be used and there is a reduction in any additional administrative burden.
3. The cash flow of the government is improved due to at least 25% of the tax from CLPs being received when the points are awarded to customers, which enables the *fiscus* to receive additional tax revenue which is needed.
4. Customers will not have large tax cash outlays upon the submission of their tax returns, as 25% has already been withheld.
5. Through the use of electronic, pre-populated tax returns, customers will have a decreased administrative burden upon submitting their tax returns with the value of their rewards earned.
6. Customers will not be disincentivised to participate in CLPs as they will still receive rewards without an onerous cash flow or administrative burdens.
7. Non-compliance risk and tax revolt is reduced as a result of immediately withholding 25% and furthermore, the tax returns are pre-populated.

Therefore, based on this proposed method, the value of the potential tax that the *fiscus* could have collected had they been taxing the Clicks Loyalty Programme from 2018 till 2021 will be calculated. However, the value of the potential tax revenue is a conservative estimate of the total tax revenue due to the limited financial information that was discussed earlier, but also due to this proposed method of taxation, as a result of the possible refunds and the additional tax that may be paid by a customer depending on their marginal tax rate as

discussed above and in Section 2.6. The potential tax revenue after considering all of the aforementioned information is tabulated below:

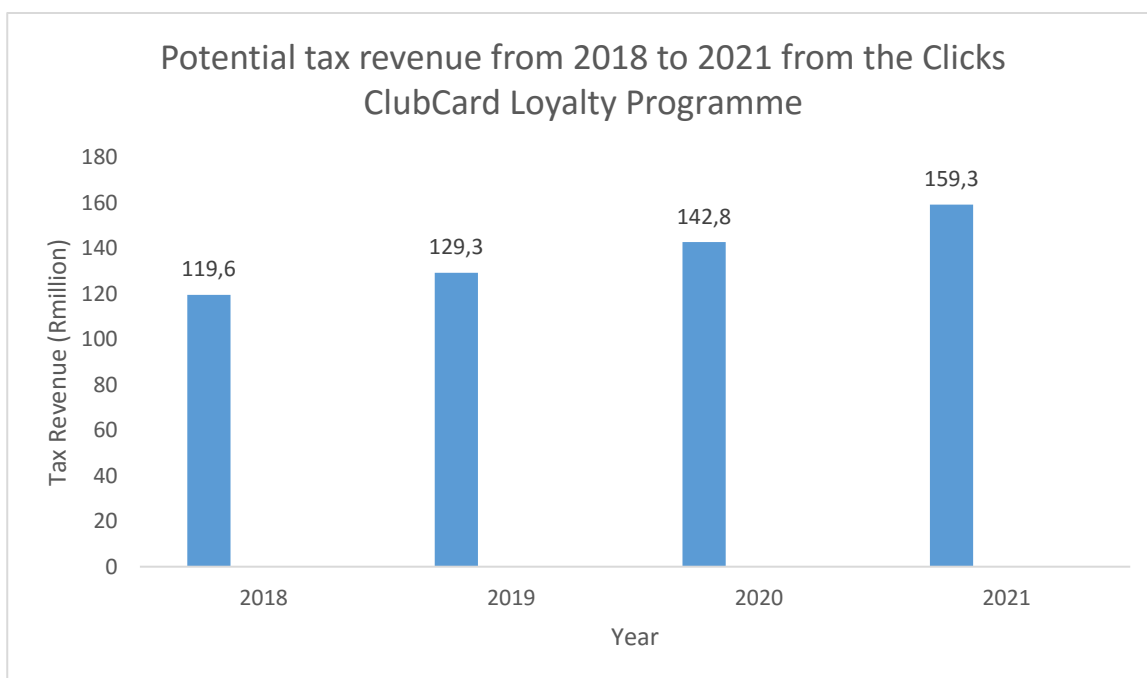
Table 10: Value of potential tax revenue

	2018	2019	2020	2021
Total value of points issued	478 371 220	517 011 381	571 340 351	637 283 203
Tax Rate	25%	25%	25%	25%
Potential tax revenue	119 592 805	129 252 845	142 835 087	159 320 801

Source: Own design using the values from Table 8 and the flat rate of 25% based on Section 2.6

Furthermore, the potential tax revenue is depicted in the graph below:

Figure 9: Graph of the potential tax revenue from 2018 till 2021



Source: Own design using the figures in Table 8

Based on Table 10 and Figure 9, it is evident that a large sum of tax revenue could have been collected by the *fiscus* had they taxed the Clicks ClubCard Loyalty Programme. In 2018, the tax revenue which could have been collected was R119,6 million. Subsequently, in 2019 the potential tax revenue increased by 8,11% in 2019 to R129,3 million. Thereafter, there was a 10,44%

increase in potential tax revenue in 2020 to R142,8 million, and then finally there was a 11,55% increase in potential tax revenue in 2021 to R159,3 million. Furthermore, in total there was a 33.19% increase in potential tax from 2018 to 2021. The reasons for the increases do not fall within the scope of this study, but this is an area for future research. In light of the aforementioned, the total potential tax revenue that the *fiscus* could have collected is R551 001 538 from 2018 till 2021.

3.4 CONCLUSION

The South African economy is struggling and in desperate need of additional income, based on the fact that they require R40 billion to return public finances to a sustainable portion. Moreover, the *fiscus* has not kept abreast with the changes in business and has therefore not taxed CLP rewards, which is problematic as businesses reduce their taxable income with the cost of providing the CLP rewards. The proposed solution was to tax customers on the CLP rewards issued through the use of a progressive withholding tax, at a rate of 25% which was applied in this chapter to the value of the points issued in terms of the Clicks ClubCard. In concluding Phase 2 of this study, the financial statements of the Clicks Group have been analysed and cumulatively calculated from 2018 to 2021 and an amount of R551 million of potential tax revenue could have been collected by the *fiscus*. Despite the fact that this amount of potential tax is conservative due to the fact that it does not consider the issuance of double points, the issuance of points from the rewards partners and the operation of the proposed mechanism to tax leading to possible refunds and additional tax upon assessment, it is a substantial amount of income that the *fiscus* could have gained.

CHAPTER 4: CONCLUSION

4.1 INTRODUCTION

In concluding Phase 3 of the research, it was determined in Phase 1 of this study that CLPs have become prevalent in business and are being widely used by South Africans (Section 1.2). Furthermore, it was established that it is imperative that the *fiscus* obtains additional sources of tax revenue to alleviate the government deficit, stabilise public debt and to restore the public finances of South Africa. This is as a result of the South African government consistently spending more than they have received in tax revenues in recent years (Godongwana, 2021:10). An additional R40 billion would be needed to stabilise the public debt and to restore the public finances (Section 1.2). Moreover, it was determined that there is a possibility to increase the tax base of South Africa by taxing these CLPs that have increased in popularity due to the fact that there is an imbalance in the taxation of the CLP rewards issued (Odendaal & Pidduck, 2014:10; Pidduck & Odendaal, 2013b:1521; Pidduck *et al.*, 2019:627; Swanepoel & Pidduck, 2020:76-77). This is as a result of companies being able to deduct the cost incurred on the issuance of rewards when calculating their tax liability, however customers are not taxed when these CLP rewards are issued to them (Section 1.2). Therefore, as the focus of this study, Clicks is able to deduct the costs that are incurred to issue ClubCard points by deducting any expenditure incurred for the goods that a customer receives by utilising their cashback. However, the customers are not taxed when they receive the issued points nor when they later utilise their cashback earned as a result of the issuance of the points.

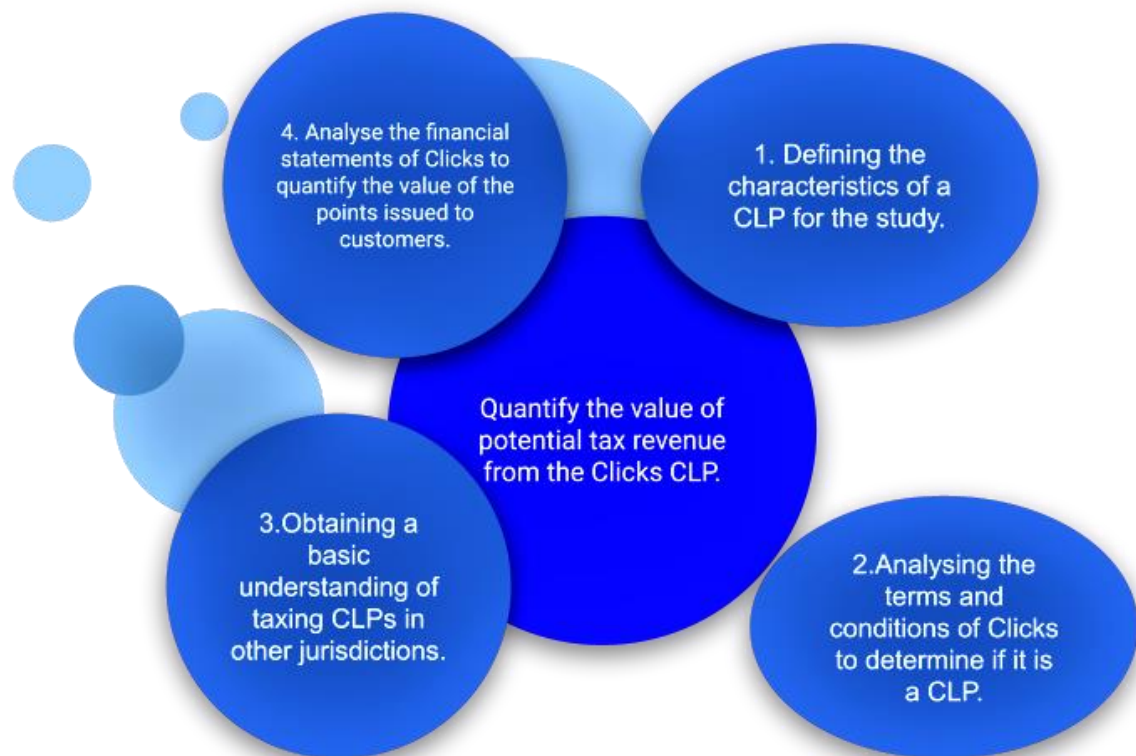
In light of this existing problem and the increased usage of CLPs, it was proposed that the rewards issued by CLPs should be taxed. IFRS 15 was proposed to be used to quantify the value of the points issued to which the tax rate would be applied too, which became the purpose of this study (Section 1.3). The purpose of the study entailed a longitudinal analysis of the Clicks ClubCard Loyalty Programme where the Clicks Limited Group financial statements were analysed and the potential tax revenue was calculated in Section 3.3 of this study. The method used to calculate the potential tax revenue was explored in Section 2.6, alongside a detailed analysis of the gross income definition in the Act (Section 2.4), to provide an understanding as to how and when the CLP rewards issued to customers should be taxed and to prove the taxability of the points issued.

The research objectives pursued in achieving the purpose of this study were formulated in Chapter 1 of this study as follows:

1. To define the characteristics of a CLP for the purposes of this study that would result in the rewards potentially being subject to tax in the hands of the customers under the Gross Income definition in Section 1 of the Act.
2. To analyse the terms and conditions of the most widely used loyalty programmes in South Africa to determine whether they meet the defining characteristics of a CLP for the purposes of the study.
3. To obtain a basic understanding of the taxation of CLPs in other jurisdictions using authoritative literature.
4. To analyse the annual financial statements of the providers of the selected CLPs from 2018 to 2021 in order to quantify the value of the CLP rewards issued to customers.
5. To quantify the potential tax revenues forgone from 2018 to 2021 as a result of not taxing the CLP rewards.

The relationship between the purpose of this study and the research objectives is represented below:

Figure 10: The contribution of the research objectives to the research problem



Source: Own design

This chapter will conclude on each of the research objectives in order to determine how much potential tax revenue the South African *fiscus* could have received by taxing CLP rewards from Clicks.

4.2 ACHIEVEMENT OF THE RESEARCH OBJECTIVES

In order to achieve these objectives, a methodological approach known as a qualitative multiple longitudinal instrumental case study analysis (Section 1.7) was followed in the larger study, however a single case study analysis was performed in this study. The multiple case study approach was used in the larger study to analyse the potential tax revenues from multiple CLPs that met the definition of a CLP for the purposes of this study (Section 1.10), whereas in this study only a single case study was analysed, namely the Clicks ClubCard Loyalty Programme, which was employed in Phase 1. Furthermore, a longitudinal design was applied in order to quantify the potential tax revenues from 2018 to 2021, which was employed in Phase 2 of this study.

The research problem investigated in this study (Section 1.4) was to **quantify the potential tax revenues from the taxation of the Clicks ClubCard points issued by the Clicks ClubCard Loyalty Programme to its customers.** In order to determine whether the research problem has been answered, it is required to determine whether the research objectives as set out in Section 1.6 were addressed:

4.2.1 Defining the characteristics of a CLP for the purposes of this study:

In Chapter 1 of this study, the background (Section 1.2) and rationale (Section 1.3) provided an introduction to CLPs, the growth in CLPs and the importance thereof. CLPs have become increasingly important in business to attract customers by incentivising customers to remain loyal to the business providing the CLP (Breugelmans *et al.*, 2015:128; Pidduck *et al.*, 2019:626; Swanepoel & Pidduck, 2020:76). In 2021, CLPs were used by 74% of economically active South Africans and have increased in popularity in recent years (Cromhout, 2021:5). CLPs were further explored in Section 2.2, where detailed definitions of CLPs were analysed and it was established that for the purposes of this study, a CLP is a loyalty programme that provides a customer with a good or service for free, but it excludes CLPs that merely provide a discount to a customer. Three definitions were relied on, namely the definitions in terms of a “rewards programme” as defined by (Burnstone & Olivier, 2018), the CLP definition by (Brink, 2014) and the definition of ‘loyalty programmes’ in Section 35 of the CPA. Based on these definitions provided, predefined selection criteria were created to which the top 25 most used CLPs in South Africa as per the 2021 Truth & BrandMapp Loyalty Whitepaper were compared, in order to select the sample of CLPs that would be studied in the larger study. Furthermore, for this study, the predefined selection criteria were required to apply the definitions that were encompassed in the predefined criteria to the Clicks ClubCard Loyalty Programme to ensure that the Clicks CLP was a CLP for the purposes of this study so as to address the research problem of this study.

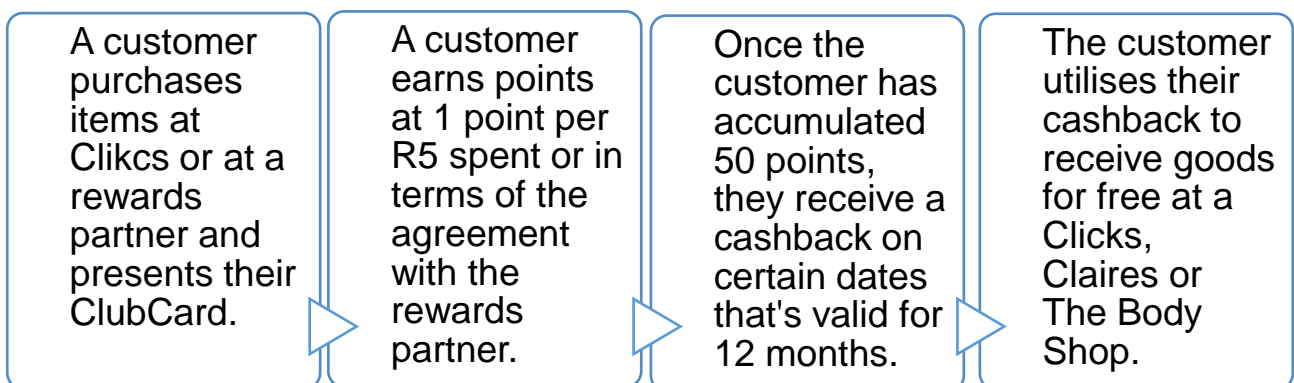
4.2.2 Analysing the terms and conditions of the most widely used CLPs to determine whether they meet the defining characteristics of a CLP for the purposes of this study

In light of the fact that this study is part of a larger study, the researchers of the larger study identified four CLPs in South Africa that qualified to be a CLP for the purposes of the larger study in Section 1.6.4 of the larger study. These four CLPs’ terms and conditions were analysed and then as a result of the nature of the CLP, the CLP was compared to the predefined selection criteria to determine whether or not the CLP would be a CLP for the

purposes of the larger study. The same predefined criteria were applied in this study to determine whether the Clicks CLP would be a CLP for the purposes of this study. Therefore, in Section 2.3, the terms and conditions of the Clicks ClubCard Loyalty Programme were analysed and discussed in detail. The definition of a CLP for the purposes of this study and the larger study was applied to the Clicks ClubCard Loyalty Programme and it was concluded that the Clicks CLP qualified to be a CLP for the purposes of this study. Customers who are ClubCard members accumulate benefits in the form of points and then the accumulated points are converted to cashback in intervals of two-month time periods to receive goods from Clicks or any rewards partner, or the cashback is utilised to receive a discount on any future purchases of goods or services within 12 months.

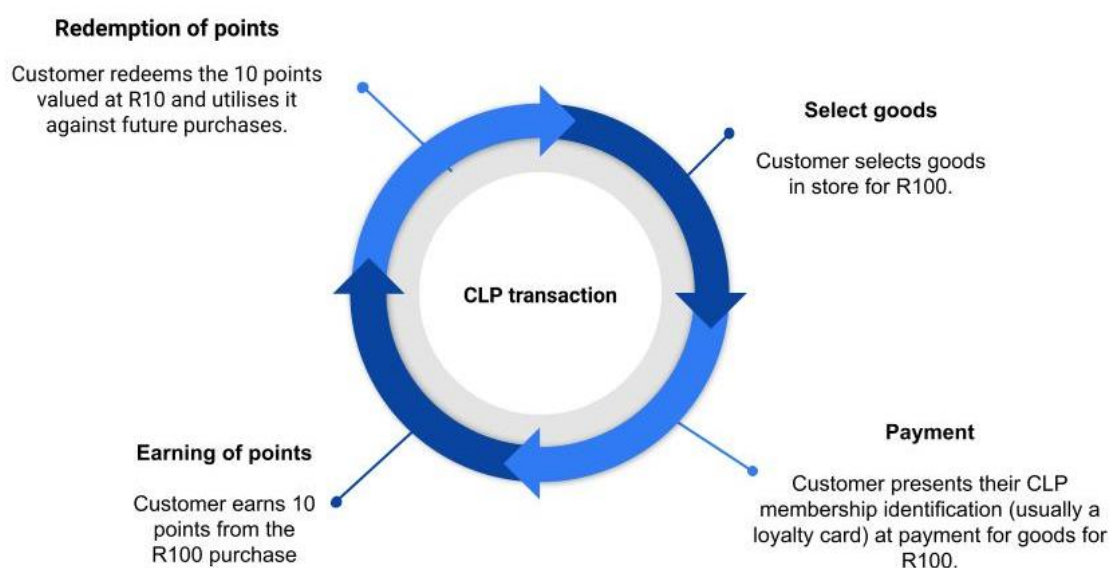
The following Figure 11 represents the operation of the Clicks CLP which was compared to Figure 12 representing the illustration of how a CLP normally operates. When comparing the two, it was further concluded that the Clicks CLP is a CLP for the purposes of this study, as the Clicks CLP has the same characteristics of an ordinary CLP (Section 2.3):

Figure 11: The operation of the Clicks CLP



Source: Own design – duplication of Figure 5 in Section 2.3

Figure 12: Illustration of a CLP



Source: Own design – duplication of Figure 4 in Section 2.2

4.2.3 Obtaining a basic understanding of the taxation of CLPs in other jurisdictions:

In Section 2.5, a basic overview of the taxation of CLPs in jurisdictions such as the United States of America, Canada, Australia and New Zealand was presented. It was concluded that the aforementioned jurisdictions have mechanisms in place to tax CLPs through the use of fringe benefits, VAT and by taxing the providers of the CLP rewards. However, there have been minimal rulings made regarding the taxation of CLP rewards in the hands of the customers.

4.2.4 Analysing the financial statements of the providers of the CLPs to quantify the value of CLP rewards issued to customers:

In Chapter 3 of this study, an analysis was performed on IFRS 15 and the accounting requirements of CLP rewards in the financial statements of the providers of CLP rewards. It was established that the provider will defer an amount of revenue annually which will represent the estimated amount to be paid out to customers in terms of their CLP based on the value of the rewards issued and the expectation of the amount of customers that will utilise their rewards. Thereafter, the financial statements of the provider were analysed, which for the purposes of this study was the Clicks Limited Group, where the deferred income was obtained which represented the estimated points to be paid out as cashback as a result of issuing points in the respective financial year. However, it was established in Section 3.3 that the disclosure provided by Clicks would be inappropriate to use the deferred

income amount upon which to calculate the potential tax, because the revenue recognised for the loyalty programme was only provided in 2021 and it only represented the revenue recognised in terms of the opening balance of the deferred income balance and not the revenue recognised for all of the points issued in a year.

In addressing this concern, an alternative method of valuing the points issued was employed in Section 3.3. It was determined that the most appropriate way to calculate the value of points issued to customers on the Clicks ClubCard Loyalty Programme was to analyse the integrated reports of Clicks where the percentage of ClubCard sales to the total revenue was provided. This percentage was subsequently applied to the total revenue figure to derive the value of the revenue related to ClubCard sales. Thereafter, the points to rand value ratio, as obtained in the terms and conditions of the Clicks ClubCard Loyalty Programme was applied to the revenue figure. This points to rand value ratio equates to one point being issued for every R5 spent. Therefore, this was applied to the ClubCard sales value to obtain the number of points issued. The value of one point is provided in the terms and conditions too, and every one point is worth R0,1. Therefore, this value of R0,1 was then applied to the number of points issued in order to determine the value of the points issued. This method of calculating the value of the rewards issued resolved the problem regarding the deferred income disclosure, as it included the revenue attributable to points issued in the year and not only the points that were included in the opening balance of the deferred income account. However, it was noted that the value of the points issued is still a conservative estimate due to the fact that it does not consider the issuance of double points and the issuance of points from the rewards partners. The calculation of the total value of the points issued is further illustrated in Table 11 below:

Table 11: Total value of the points issued

	2018	2019	2020	2021
Total revenue	R30 982 592 000	R33 312 589 000	R36 530 713 000	R39 730 873 000
Percentage of ClubCard sales to total sales	77,2%	77,6%	78,2%	80,2%
Total ClubCard Sales	R23 918 561 020	R25 850 569 060	R28 567 017 570	R31 864 160 150
Number of points per Rand value	/R5	/R5	/R5	/R5
Value of one point	R0,1	R0,1	R0,1	R0,1
Total value of points issued	R478 371 220	R517 011 381	R571 340 351	R637 283 203

Source: Own design and duplication of Table 8 in Section 3.3

4.2.5 Quantifying the value of potential tax revenues from not taxing the CLP rewards:

To quantify the potential taxation on the CLP rewards, various mechanisms of taxation were analysed in Sections 1.2 and 2.6, where it was established that the best method of taxation would be a flat rate of withholding tax which would be applied as a progressive tax in the fact that the value of rewards would be included in the gross income of the customer and then the tax withheld would be a prepayment of a customer's normal tax liability. This proposed method of taxation provides the following benefits and is the reason for the adoption of this method to calculate the value of the potential tax revenue (Pidduck *et al.*, 2019:641):

1. This method of taxation allows for progressive tax to be collected, which is consistent with the progressive tax goals of the government.
2. Existing structures at SARS can be used and there is a reduction in any additional administrative burden.
3. The cash flow of the government is improved due to at least 25% of the tax from CLPs being received when the points are awarded to customers which enables the *fiscus* to receive additional tax revenue which is needed.

4. Customers will not have large tax cash outlays upon the submission of their tax returns, as 25% has already been withheld.
5. Through the use of electronic, pre-populated tax returns, customers will have a decreased administrative burden upon submitting their tax returns with the value of their rewards earned.
6. Customers will not be disincentivised to participate in CLPs, as they will still receive rewards without an onerous cash flow or administrative burden.
7. Non-compliance risk and tax revolt is reduced as a result of immediately withholding 25% and furthermore, the tax returns are pre-populated.

In light of the aforementioned benefits, it was determined in Section 2.6 that the most appropriate rate would be a flat rate of 25% that would be applied to the value of the ClubCard points. Therefore, the 25% was subsequently applied to the value of points issued, as explained above in Section 4.2.4, to calculate the potential tax revenue from the Clicks ClubCard Loyalty Programme which was calculated in detail in Chapter 3 of this study. The cumulative potential tax revenue amount totalled to R551 001 538. The value of the potential tax revenue is presented in the following table:

Table 12: Potential tax revenue from the Clicks ClubCard Loyalty Programme

	2018	2019	2020	2021
Total value of points issued	R478 371 221	R517 011 381	R571 340 340	R637 283 203
Tax Rate	25%	25%	25%	25%
Potential tax revenue	R119 592 805	R129 252 845	R142 835 087	R159 320 801

Source: Own design and duplication of Table 10

However, it was noted in Section 3.3 that the potential tax revenue is a conservative estimate due to the reason that the value of the points is a conservative value as discussed above in Section 4.2.4. In addition to this, the potential tax revenue is a conservative estimate due to the proposed mechanism of taxation that allows for a possible refund to customers that have a marginal tax rate according to the progressive tax table that is less than 25%, and on the other hand, customers may need to pay additional tax revenue in relation to their CLP rewards if their marginal tax rate according to the progressive tax table is more than 25%.

4.3 LIMITATIONS OF THIS STUDY

The following areas have been identified as limitations of this study:

1. As identified in Chapter 1, this study forms part of a larger study and therefore is limited to the Clicks ClubCard Loyalty Programme and it does not analyse all of the CLPs in South Africa. In addition, the larger study was limited to only the top 25 CLPs in South Africa as per the 2021 Truth & BrandMapp Loyalty Whitepaper. This study only analyses the Clicks ClubCard Loyalty Programme, and therefore is limited to one company within the retail pharmaceutical industry of South Africa.
2. In quantifying the potential tax revenues from the Clicks ClubCard Loyalty Programme, only the years from 2018 till 2021 were analysed and used to quantify the potential tax revenue due to the fact that IFRS 15 was only implemented and only became effective in 2018.
3. As discussed in Chapter 3 of this study, IFRS 15 was explained and an understanding was obtained of IFRS 15. However, in the financial statements of the Clicks Limited Group there was insufficient disclosure to use IFRS 15 in full due to the fact that the contract liability was disclosed without providing additional disclosure on the total revenue recognised for the year as a result of the CLP. Therefore, a conservative estimate of the value of ClubCard points was made to determine the potential tax revenue.

4.4 FUTURE AREAS OF RESEARCH

The following areas have been identified for future research:

1. Analyse the terms and conditions of the most widely used CLPs in South Africa to determine whether they meet the defining characteristics of the charging section for the purposes of Value-Added Tax in South Africa.
2. Obtain a detailed and in-depth understanding of the taxation of CLPs in other jurisdictions.
3. An analysis of the trends in the amount of the potential tax revenue from CLPs, to determine what the factors were that caused the growth in the amount of potential tax revenue that could have been collected.
4. An in-depth analysis of whether the taxation of CLP rewards issued in the hands of the customer is viable and beneficial to the *fiscus*.

5. An analysis of the specific tax rate that should be used to tax CLP rewards to ensure a balance in the equity of the taxation on CLP rewards to the taxpayer, yet still be a beneficial amount of tax for the *fiscus*.
6. A study of analysing the quantification of tax revenue from CLP rewards as a result of effects in the Income Tax Act that may exempt the tax or allow for an additional assessment or a refund of normal tax to the taxpayer as a result of their applicable tax rate.
7. A detailed study of the relationship that exists between the CLP providers and third parties that also offer points in terms of the CLP.

4.5 CONCLUSION

It was determined in Phase 1 of this study that CLPs are growing and becoming more prevalent in South Africa due to the fact that 74% of economically active South Africans in 2021 belonged to CLPs. The Clicks ClubCard Loyalty Programme had more than 8,9 million users that had signed up for the CLP in 2021 (Clicks, 2021b:26). This enhanced model of doing business has led to research being done on making proposals to tax CLP rewards in the hands of a customer who participated in the CLP and therefore received rewards. The taxation of CLP rewards would be important in a South African context due to the overspending by the government which has caused a concerning deficit for South Africa, and therefore caused the *fiscus* to need additional tax revenue to stabilise the debt. It was proposed that the current taxing legislation allows for the taxation of the Clicks ClubCard points in the form of gross income in Section 1 of the Act. However, there is great uncertainty regarding the timing of the accrual and the receipt of the points due to the expiration of points within 12 months, the ownership of points as a result of the ClubCard (Section 2.4.4), and to consider whether the points received or accrued are capital in nature or revenue in nature due to the subjectivity involved in the determination thereof (Section 2.4.5). It was therefore determined in Phase 1 of this study, under Section 2.6, that a withholding tax in the form of a progressive tax rate should be applied to the value of the Clicks ClubCard points. The use of a withholding tax as a progressive tax involves the withholding of tax which is then treated as a prepayment of tax upon assessment. This mechanism of taxation will enhance the equity of the taxation of the ClubCard points and furthermore, it will maintain the integrity of the Clicks ClubCard Loyalty Programme, as customers will not be incentivised to not participate in the CLP. A withholding tax will not create a large additional tax burden upon assessment, as all or the majority of the tax would have been withheld already. The

proposed mechanism to tax will require the provider (Clicks) to withhold an amount of 25% of the value of the rewards issued to customers. Thereafter, a customer will receive a document at the end of each year of assessment which will indicate the value of the rewards earned in the year that will automatically be pre-populated on their tax return, whereafter the 25% withheld will be deducted from normal tax payable upon assessment as a prepayment of their tax liability. In addition to the proposed method of taxation that was discussed in Phase 1 of this study, a basic understanding was obtained of the taxation of CLPs in other countries. Here it was established that Canada, the United States of America, Australia and New Zealand have done little in order to address the tax considerations related to the receipt of CLP rewards in the hands of a customer, and that their taxing legislation addressed the taxation of CLP rewards through the use of fringe benefits, VAT and the taxation of the providers of CLP rewards.

However, the proposed taxation of CLP rewards in other jurisdictions and in South Africa is dependent on a fair and reliable amount to which the tax rate of 25% can be applied. IFRS 15 was therefore analysed in detail in Phase 2 (Chapter 3) of this study, whereby it was discussed that IFRS 15 requires a company to defer the amount of revenue that is related to the CLP. However, based on the discussion in Section 3.3 of this study, the value of the points issued had to be calculated using an alternative method due to the insufficient disclosure that Clicks provided. Once the value of the points issued had been calculated, it was then multiplied with the tax rate of 25% where a cumulative potential tax revenue of R551 million was calculated from 2018 to 2021 by employing the longitudinal analysis in Phase 2 of this study. Therefore, it would seem that by addressing the taxation of CLP rewards, it would reduce the economic disruptions in South Africa and potentially improve the economic outlook of many jurisdictions worldwide as a result of a large quantity of tax revenue being potentially collected.

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APENDIX A: DECLARATION OF PLAGIARISM



UNIVERSITEIT VAN PRETORIA
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DEPARTMENT OF TAXATION

Declaration Regarding Plagiarism

The Department of Taxation emphasises integrity and ethical behaviour with regard to the preparation of all written assignments. Although the lecturer will provide you with information regarding reference techniques, as well as ways to avoid plagiarism (see the "Guidelines on Referencing" document), you also have a responsibility to fulfil in this regard. Should you at any time feel unsure about the requirements, you must consult the lecturer concerned before submitting an assignment.

You are guilty of plagiarism when you extract information from a book, article, web page or any other information source without acknowledging the source and pretend that it is your own work. This does not only apply to cases where you quote the source directly, but also when you present someone else's work in a somewhat amended (paraphrased) format or when you use someone else's arguments or ideas without the necessary acknowledgement. You are also guilty of plagiarism if you copy and paste information directly from an electronic source (e.g., a web site, e-mail message, electronic journal article or CD-ROM) without paraphrasing it or placing it in quotation marks, even if you acknowledge the source.

You are not allowed to submit another student's previous work as your own. You are furthermore not allowed to let anyone copy or use your work with the intention of presenting it as his/her own.

Students who are guilty of plagiarism will forfeit all credits for the work concerned. In addition, the matter will be referred to the Committee for Discipline (Students) for a ruling. Plagiarism is considered a serious violation of the University's regulations and may lead to your suspension from the University. The University's policy regarding plagiarism is available on the Internet at <http://www.library.up.ac.za/plagiarism/index.htm>.

For the period that you are a student at the Department of Taxation, the following declaration must accompany all written work that is submitted for evaluation. No written work will be accepted unless the declaration has been completed and is included in the particular assignment.

	Student
I (full names & surname):	Jade Shirley Craigen
Student number:	18019979

Declare the following:

1. I understand what plagiarism entails and am aware of the University's policy in this regard.
2. I declare that this assignment is my own, original work. Where someone else's work was used (whether from a printed source, the Internet or any other source) due acknowledgement was given and reference was made according to departmental requirements.
3. I did not copy and paste any information directly from an electronic source (e.g., a web page, electronic journal article or CD ROM) into this document.
4. I did not make use of another student's previous work and submitted it as my own.
5. I did not allow and will not allow anyone to copy my work with the intention of presenting it as his/her own work.

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Signature

