

**QUANTIFYING TAX REVENUE ON CUSTOMER LOYALTY REWARDS:
THE CASE OF DIS-CHEM IN SOUTH AFRICA**

by

Caleb Luke Vergotine

Student Number: 18073523

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Supervisor: Prof Teresa Pidduck

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ABSTRACT

QUANTIFYING TAX REVENUE ON CUSTOMER LOYALTY REWARDS: THE CASE OF DIS-CHEM IN SOUTH AFRICA

by

NAME AND SURNAME: Caleb Luke Vergotine

SUPERVISOR: Professor Teresa Pidduck

DEPARTMENT: Department of Taxation

DEGREE: MCom (Taxation)

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The greatest method to produce resources and to reduce the tax collection shortfall is to grow the economy and broaden the tax base, according to the South African Minister of Finance's 2022 Budget Speech. In 2021 alone, Customer Loyalty Programmes (CLPs) were used by 74 percent of economically active South Africans and have increased in popularity in recent years. The receipt of CLP points is not taxed in the hands of customers, while the expenses associated are being deducted by businesses in calculating their taxable income.

This study quantifies the potential tax revenues that may be collected should a tax be introduced on CLP rewards, using existing tax systems in order to broaden the tax base and increase tax revenues in South Africa.

To quantify these tax revenues, this study focused on one CLP in South Africa (the Dis-Chem Benefit CLP) in the form of a longitudinal case study from 2018 to 2022.

The findings revealed that at least R237 million in potential tax revenues could be collected from just one CLP in South Africa from 2018 to 2022 (Dis-Chem Benefit CLP) should a withholding tax of 25 percent be employed as proposed. While this research forms part of a larger study and is focused on the Dis-Chem Benefit CLP, the findings indicate that an introduction of a tax on CLPs in South Africa would also yield additional much needed tax revenues.

Keywords: Taxation, customer loyalty programme rewards, taxation revenue, South Africa.

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LIST OF ABBREVIATIONS AND ACRONYMS

Table 1: Abbreviations and acronyms used in this document

Abbreviation	Meaning
CLPs	Customer Loyalty Programmes
Income Tax Act	Income Tax Act No. 58 of 1962
SARS	South African Revenue Service
Dis-Chem	Dis-Chem Pharmacies Limited
IFRS	International Financial Reporting Standards
IFRIC	International Financial Reporting Interpretation Committee
IASB	International Accounting Standard Board
CPA	Consumer Protection Act No. 68 of 2008
GDP	Gross Domestic Product
EU	European Union
WHT	Withholding Tax

CHAPTER 1: INTRODUCTION

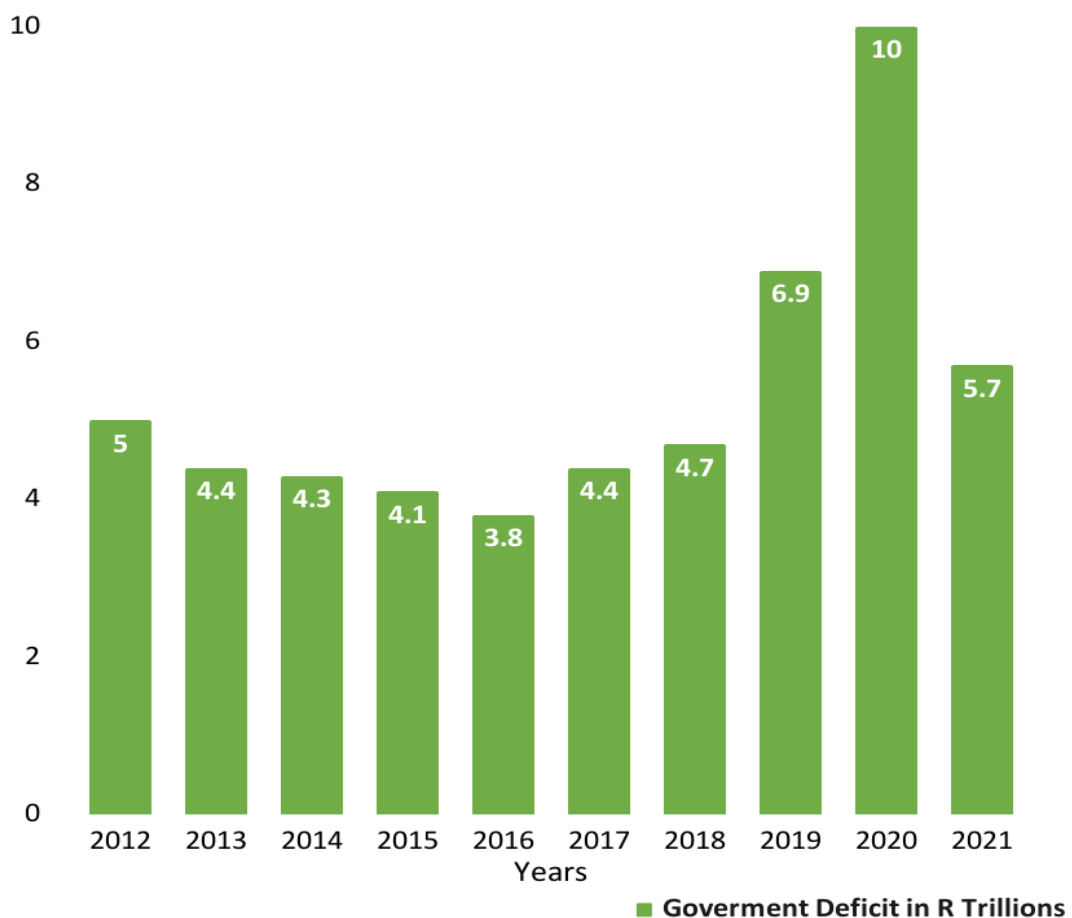
1.1. INTRODUCTION

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 may be either financial or non-financial rewards (Breugelmans *et al.*, 2015:129). Businesses also use CLPs 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 percent 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 businesses and customers in South Africa. Interestingly, research indicates that there has been no change in how these transactions are taxed in order to correspond with the change in business (Odendaal & Pidduck, 2014:10; Pidduck & Odendaal, 2013:1521; 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, 2021b: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 (National Treasury, 2021a:10). Furthermore, it is acknowledged that the South African government is in need of additional tax revenues resulting from the damage caused by the COVID-19 pandemic, which has caused severe disruptions to economies the world over (National Treasury, 2021a:3).

According to the South African Revenue Service (SARS), the actual net collections represented a contraction of 7,8 percent in the 2020/2021 fiscal year, in comparison to the 2019/20 fiscal year, and the projected 2020/21 tax collection shortfall was expected to be the largest on record (National Treasury, 2021b:3). 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, 2021b:9). The real gross domestic product (GDP) growth is projected to be 2,1 percent for 2022 (National Treasury, 2022b:5). Figure 1 below depicts the government budget deficit over time and indicates that it is a growing cause for concern for South Africa.

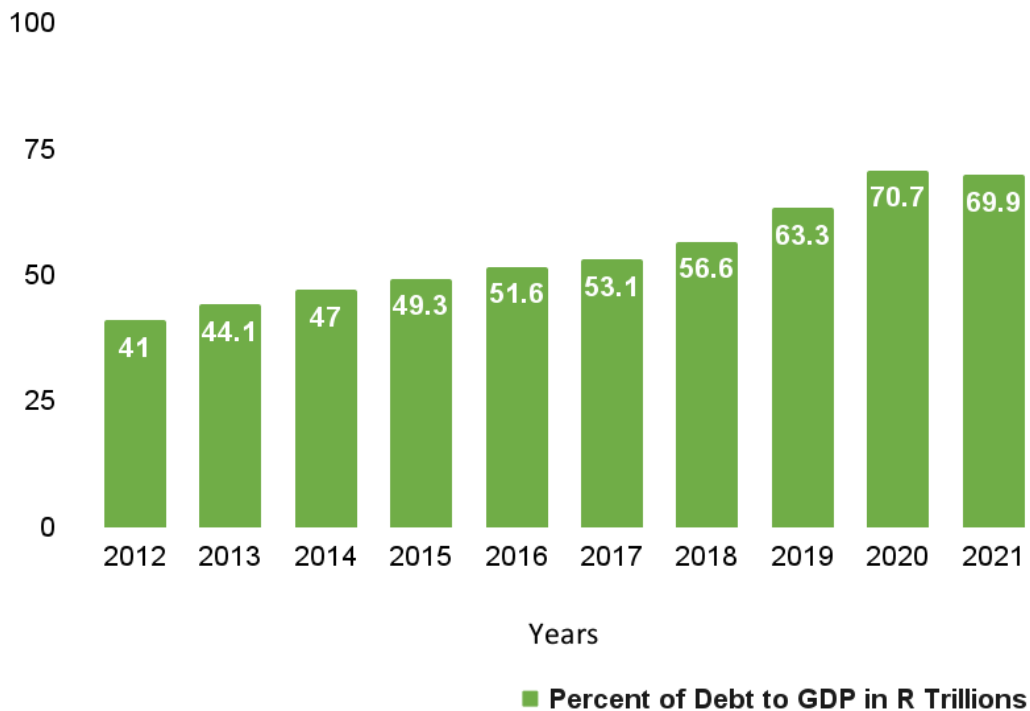
Figure 1: Government budget deficit



Source: (Trading Economics, 2022a)

Moreover, the need for additional tax revenue is emphasised by the steadily growing government debt to GDP ratio as illustrated in Figure 2 below.

Figure 2: South African debt to GDP ratio



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 evident that the *fiscus* is in need of additional revenue collections by expanding the tax base (National Treasury, 2021b: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, 2021b: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 percent, while the European Union (EU) suggests a debt to GDP ratio at a maximum of 60 percent 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 (Income Tax Act), 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, 2013:1524; 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 (CLP providers) in these cases failed in their attempts to claim a deduction under Section 24C of the Income Tax 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 Income Tax Act (Brink, 2014; Pidduck & Odendaal, 2013:1526). 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, 2013:1524; Pidduck *et al.*, 2019:627; Swanepoel & Pidduck, 2020:77).

Commentators have argued that CLP rewards received by customers satisfy the gross income definition and should be included in a taxpayer's gross income (Odendaal & Pidduck, 2014:12; Pidduck & Odendaal, 2013:1532; 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 (IFRIC) 13.

In addition to quantifying the value of CLP rewards in attempting to quantify possible tax revenues, prior research also considered various mechanisms to tax CLP rewards (Odendaal & Pidduck, 2014; Pidduck & Odendaal, 2013; Pidduck *et al.*, 2019). One mechanism that was considered was the inclusion of the CLP rewards into the income of individuals similar to that of employment income, where the value of CLP rewards received by a customer would be recorded and pre-populated on the customer's individual tax return. This mechanism would allow the CLP reward 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 with the necessary documentation each year to allow for CLP income to be included into their income and would create an additional administrative burden for businesses (Pidduck *et al.*, 2019:639). Furthermore, this mechanism might 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, and this may be considered unfair by taxpayers (Pidduck *et al.*, 2019:639). In addition to this, customers are sensitive to increases in expenditure and a tax on CLP rewards in this manner may undermine the essence of a CLP, as customers may opt not to join the programmes (Pidduck & Odendaal, 2013:1528). Therefore, this mechanism was rejected.

Consequently, Odendaal and Pidduck (2014) and Pidduck and Odendaal (2013) proposed a flat rate of withholding tax to be applied to CLP rewards. 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, 2013:1528). 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; Lebert, 2021:78).

Taxing CLP rewards through a mechanism that is fair and promotes equality in coherence to 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 progressive withholding tax, has become an important aspect to research due to the increase in the South African government's expenditure (Pidduck *et al.*, 2019:626). 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, 2013:1522). Whether the amount of tax revenue from the taxation of CLP rewards will justify the changes required to tax the CLP rewards, may only be further investigated upon determining what the potential tax revenues are.

1.2. RATIONALE OF THE STUDY

The larger study aims to determine what the potential tax revenue from the taxation of CLP rewards may be. In quantifying this tax revenue, it may be determined whether the administrative changes required to tax the CLP rewards are justified in light of the amount of tax revenues to be collected, 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 and the larger study, reliance will be placed on the disclosure presented in the annual financial statements to quantify the tax revenue on CLP rewards received by customers of the various CLP providers selected for use. The annual financial statements of these various CLP providers were compiled using the reporting framework of 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, IFRIC 13 (IFRS Foundation, 2021). However, from the 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, 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 (IFRS Foundation, 2021; International Accounting Standards Board, 2018:A865). IFRS 15 requires companies to implement a five-step approach to recognise, measure and present revenue and deferred revenue received from a customer (International Accounting Standards Board, 2018:A870). The application of the five-step approach in IFRS 15 derived from CLPs in the annual financial statements will allow researchers for purposes of both this study and the larger study to quantify the tax revenues on CLP rewards with greater accuracy than before. Furthermore, deferred revenue disclosed by all of the CLP providers analysed in the larger 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), Odendaal and Pidduck (2014) and Pidduck and Odendaal (2013), these (and other) studies 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 addition to limitations regarding valuation related to accounting disclosures identified in the prior research, scoping and sampling limitations also existed in those studies. Therefore, the opportunity exists whereby further research may be conducted using the disclosures in accordance with IFRS 15 to quantify the taxation revenue on CLP rewards in the hands of customers. The result of such research will assist in quantifying the tax revenues from CLP rewards in the hands of customers.

1.3. RESEARCH PROBLEM

Substantial growth has been experienced in CLPs in South Africa over the past decade and they are used by over 74 percent 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, 2013:1521). 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, 2013; Pidduck *et al.*, 2019). IFRS 15 now provides mandated disclosure related to CLPs that would facilitate quantification of the tax revenues on CLP rewards, in order 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 to stabilise public debt and stabilise public finances in South Africa (National Treasury, 2021b:39). Therefore, this study forms part of a larger study which aims to **quantify the potential tax revenues from the taxation of CLP rewards by customers**. This study is limited in scope to that of one such CLP as described in Section 1.6 below.

1.4. RESEARCH QUESTION

The key research question applicable to this and the larger study is expressed as:

How much potential tax revenue could have been received by the South African *fiscus*, by taxing CLP rewards since the introduction of relevant accounting disclosures?

1.5. RESEARCH OBJECTIVES

The objectives formulated to answer the research question and achieve the goal of the larger study are as follows:

- 1. 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 the Income Tax Act No. 58 of 1962.**

2. **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. **Analyse the annual financial statements of the providers of the selected CLPs in order to quantify the value of the CLP rewards issued to customers.**
4. **Quantify the cumulative potential tax revenues forgone by the South African *fiscus* as a result of not taxing CLP rewards.**
5. Compare the taxation of CLPs to other jurisdictions using authoritative literature.
6. 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.

While the objectives stated above are those to be achieved for the larger study, the focus of this study is limited in scope to Objectives 1-4. Furthermore, this study is limited in scope to one selected CLP as outlined in Section 1.6.4 (Selection of CLPs) below.

1.6. RESEARCH DESIGN AND METHODOLOGY

The larger study follows a qualitative research paradigm through the use of multiple longitudinal instrumental case studies (Creswell & Creswell, 2018:13-14; Yin, 2018:51). This study will make use of a single longitudinal case study as identified in Section 1.6.4 (Selection of CLPs). Qualitative research is based on individuals constructing 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 (Creswell & 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 two types of information, the first of which is 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 points issued in each financial year. The second source of data will be non-financial information with an emphasis on the terms and conditions related

to CLPs to assist in achieving the research objectives for this study. Further sources of non-financial information used to achieve the research objectives include government publications, articles from peer reviewed journals, the South African tax legislation and related case law. The data used is available publicly and as a result there should be no ethical issues resulting from the use of the abovementioned data. 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, this study 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.

1.6.1. 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 Creswell and 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 multi-site study) or a solitary case (a within-site study).”

Therefore, a case study approach may be a single-case case study or may incorporate multiple cases which is the study and evaluation of more than one case (Saunders, Lewis & Thornhill, 2007:140). A multiple-case case study is appropriate to establish whether the findings in one case may be observed in other cases. As a consequence, a generalisation may be made from these findings (Saunders *et al.*, 2007:140). For the purposes of this study, the single case study approach is applicable, as financial statements and other non-financial data are analysed to quantify the tax revenues that the *fiscus* could have collected from the taxation of CLP rewards, as is specific to a single CLP reward provider. Moreover, for the purposes of the larger study, a multiple-case case study is applied as multiple CLPs are selected to quantify these tax revenues. Therefore, a single instrumental

case study is suitable for the purposes of achieving the research objectives of this study, while a multiple-case study is suitable for achieving the objective of the larger study.

In addition to the use of a multiple-case study design for the larger study (single case instrumental case study for this study) a longitudinal case study design is used for the purposes of both this and the larger 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 an extended 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 research objectives. The qualitative longitudinal instrumental case study, as used in this study, is carried out in 3 phases as follows:

- **Phase 1 – Literature review and case study research** (Chapters 1 and 2). The literature review and case study research approach are employed in Chapters 1 and 2 to allow a comprehensive analysis of literature related to CLPs in South Africa, including the specific detail and anomalies related to the CLP selected for use in this study. The literature review allows for an understanding to be obtained regarding the operation of CLPs in South Africa, and to determine whether the most popular loyalty programmes meet the definition of a CLP for the purposes of this study. Thereafter, an analysis of the taxing legislation and proposed mechanisms of taxation of CLP rewards is performed and applied to the CLP selected for use in this study.
- **Phase 2 – Longitudinal case study research and data analysis** (Chapter 3). The longitudinal case study approach is employed in Chapter 3 and begins with an analysis of IFRS 15, in order to gain an understanding of the accounting disclosures that allow for the quantification of the CLP rewards of the selected CLP. Thereafter, the selected CLP is 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 and discussed in Phase 1 will be applied to these CLP 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 third and final phase uses the findings from Phases 1 and 2 to answer the research question and address the research objectives by concluding on the amount of potential tax revenue that the South African *fiscus* could receive, should a taxation on CLP rewards be introduced for the selected CLP. During this phase recommendations for amendment to the South African taxation legislation will be proposed for the taxation on CLP rewards received by customers.

1.6.2. THE USE OF IFRS 15 DISCLOSURE

The researcher is required to obtain the values necessary to quantify the CLP rewards received by customers in order to quantify possible tax revenues in Phase 2 of the study. These values are disclosed in the financial statements of the CLP providers through the use of disclosure mandated by IFRS 15. 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 the purposes of this study.

The larger study and this study require the following data from the financial statements, as well as from the terms and conditions of individual CLPs to quantify the value of the tax revenues with any measure of accuracy:

- Revenue from sale of goods
- Value of the CLP points issued
- The expected percentage of CLP rewards points that will be used by customers as determined by each provider
- Ratio of Rand purchases to CLP reward points earned
- Value of each point

1.6.3. VALIDITY, RELIABILITY AND OBJECTIVITY OF THE STUDY

Objectivity and integrity should be continuously maintained throughout the performance of a study (Mouton, 2001:240). Similarly, through the performance of the study, the researcher should minimise the effect of error through bias or subjectivity by enhancing the validity of the study and conclusions based on the research performed (Mouton, 2001:110). It is further accepted that the perspectives and experience of the researcher may influence the study and affect the reliability of the study (Patton, 2002:566). The following steps are taken throughout the performance of this study to enhance and maintain the validity, reliability and objectivity:

- There is a risk that the interpretation of South African tax legislation and related case law in the context of the study may inherently include subjectivity or bias. However, it is important to understand that many decisions in court are based on the perspective of the judiciary, where subjectivity may also be introduced. A phased approach is therefore applied to address the concern. The approach which aids in reducing this subjectivity is described below:
 - **Phase 1:** The literature is analysed extensively to apply the tax legislation to CLP rewards received by customers. This analysis is conducted using reliable bodies of work from seminal case law, articles from peer-reviewed journals and the terms and conditions of the CLP selected for this study. This aids in maintaining the validity, reliability and objectivity of the study.
 - **Phase 2:** The value of CLP points issued from the selected CLP will set the context of the transactions and is achieved through the use of IFRS 15 disclosure. There is a risk that unreliable financial data may be used to quantify the tax revenue. This risk is mitigated by the use of financial statements that are prepared in accordance with the International Financial Reporting Standards (IFRS).
 - IFRS is accepted as a reliable financial reporting 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). The process of creating a reliable framework such as IFRS is extensive and multiple experts are involved, which leads to the conclusion that the use of IFRS is reliable.

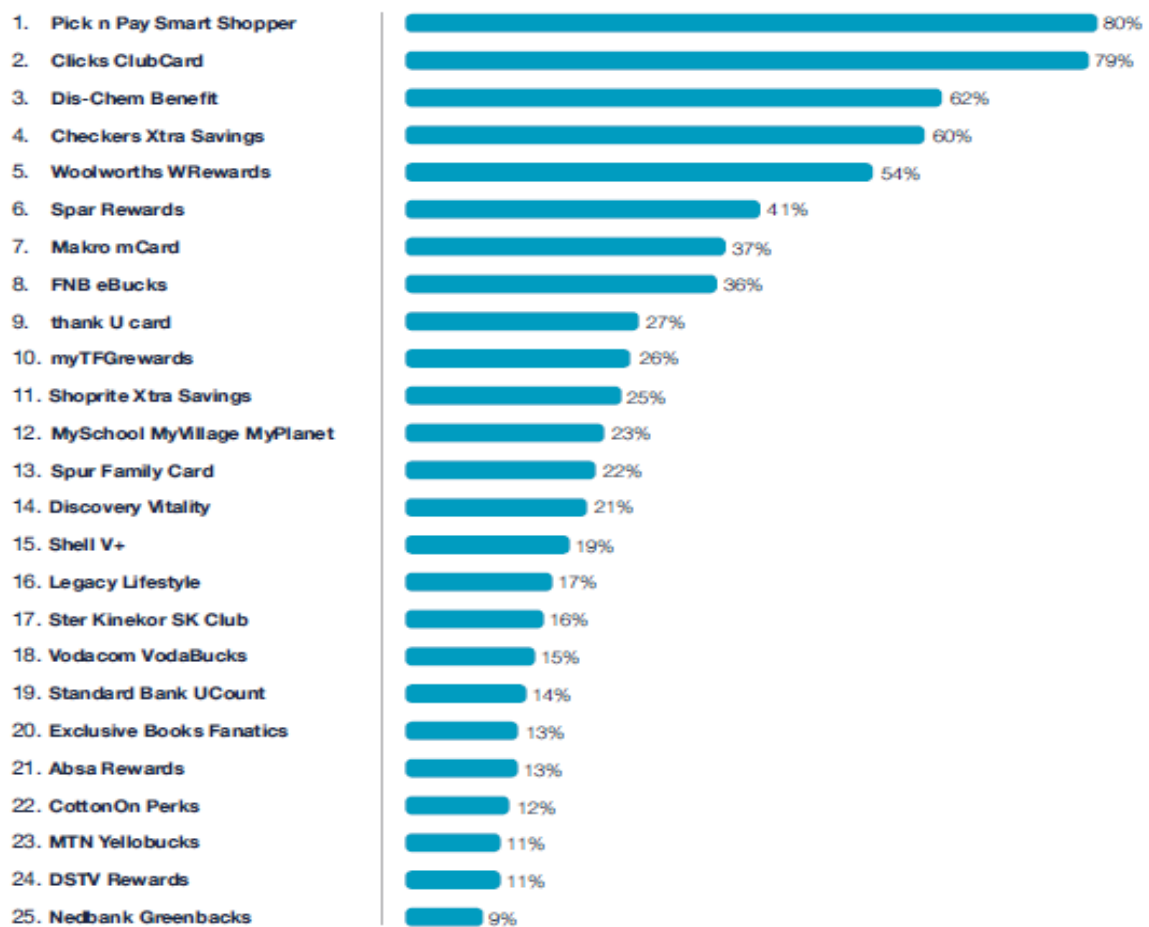
- While the annual financial statements were compiled in accordance with IFRS, the validity of the research may still be cast in doubt as there may be differences in interpretation and application of IFRS. Similarly, there could be a risk that the annual financial statements were not compiled in compliance with IFRS. To mitigate these risks the published annual financial statements of the selected CLP were audited by Ernst and Young as well as Mazars, which are reputable international auditing firms, and the audit reports and any effects of the audit reports were duly considered in the performance of the research. The process of auditing requires auditing firms to gain reasonable assurance that the financial statements are compiled in line with IFRS and are free from material misstatements. As a result only financial statements that were audited by reputable auditing firms from 2018 to 2022 were considered for Phase 2 (Chapter 3) of this research.
 - The auditor's report can be found within the annual financial statements of the company which offers the selected CLP (Dis-Chem Pharmacies Limited, 2018:8-11; Dis-Chem Pharmacies Limited, 2019:12-15; Dis-Chem Pharmacies Limited, 2020:12-17; Dis-Chem Pharmacies Limited, 2021:12-17; Dis-Chem Pharmacies Limited, 2022a:11-15).
- **Phase 3:** The results of Phase 1 and Phase 2 are used to suggest improvements to the South African tax legislation. This ensures that both the theoretical (literature review) and practical (value of CLP points issued) are used to contribute towards the suggested improvements. The use of both a theoretical and practical analysis aids in maintaining the reliability and validity of the study.
- The providers of CLPs are well-known entities, and as a result, the researchers may have been subjected to personal bias towards these entities. To mitigate this risk, the researchers collaborated on the research proposal and actively engaged one another in critical thinking and professional scepticism to mitigate the risk of personal bias and/or subjectivity from affecting the study.

- The final area identified as a concern was the selection of the sample of the instrumental case study. To mitigate this risk, the method used for selection of CLPs is known as purposeful maximal sampling with the purpose of allowing the selection of CLPs that will assist in achieving the research objectives of the study (Creswell & Creswell, 2018). The criteria set out in Section 1.6.4 (Selection of CLPs) aims to ensure that CLPs selected will assist in reaching the research objectives of the study.

1.6.4. 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 the study, the top 25 most used CLPs in South Africa as per the 2021 Truth & BrandMapp Loyalty Whitepaper illustrated by Cromhout (2021:12) were used as the population from which the sample was selected. Figure 3 below 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 for the purposes of the 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:

- The CLPs that focused on rewarding customers with points for being loyal were considered for the study in order to maintain the scope and focus of the study, and as a result the CLPs that only provided an upfront discount or voucher to the customer were excluded from the study.
- The CLPs whereby the company was able to provide financial data that was publicly available were considered for the study in order to allow the researchers to quantify the value of the CLP rewards received by customers and meet the research objectives. Therefore the CLP providers that did not have financial data that was publicly available were excluded from the study.

- The CLPs that had financial data and provided sufficient disclosure in terms of IFRS 15 were considered for the study, as the researchers would be able to quantify the value of the CLP rewards using the information disclosure as per IFRS 15. Consequently, the CLPs that provided insufficient disclosure in terms of IFRS 15 were excluded from the study.
- The CLPs that have been in operation for at least three years were considered for the study, in order to enable the researcher to conduct a longitudinal instrumental case study analysis (as described in Section 1.6.1) and meet the research objectives. Therefore, CLPs that had not been in operation for at least three years were excluded from the study.

The CLPs that did not meet the above criteria are indicated in Table 2 below:

Table 2: CLPs not meeting criteria

CLP	CLP with upfront discount or vouchers only	CLP with insufficient financial data (not publicly available) and/or insufficient disclosure	CLP recently launched
<i>ABSA Rewards</i>		X	
<i>Checkers Xtra Savings</i>	X		X (October 2019)
<i>CottonOn Perks</i>		X	
<i>Discovery Vitality</i>		X	
<i>DStv Rewards</i>	X	X	X (September 2020)
<i>Exclusive Books Fanatics</i>		X	
<i>Legacy Lifestyle</i>		X	
<i>Makro mCard</i>		X	
<i>MTN YelloBucks</i>		X	X (October 2020)
<i>myTFG Rewards</i>	X		
<i>MySchool MyVillage MyPlanet</i>		X	

<i>Nedbank Greenbacks</i>		X	
<i>Shell V+</i>		X	X (December 2019)
<i>Shoprite Xtra Savings</i>	X		X (October 2020)
<i>Spar Rewards</i>	X		
<i>Spur Family Card</i>		X	
<i>Standard Bank (UCount Rewards)</i>		X	
<i>Ster Kinekor SK Club</i>		X	
<i>thank U card</i>		X	
<i>Vodacom VodaBucks</i>		X	X (September 2020)
<i>Woolworths WRewards</i>	X		

Checkers Xtra Savings, DStv Rewards, myTFG Rewards, Shoprite Xtra Savings, Spar Rewards and Woolworths WRewards were all disqualified from this study on the basis that these CLPs only provided 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, CLPs in the population (refer to Table 2) 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 CLPs that were excluded on these grounds were ABSA Rewards, CottonOn Perks, Discovery Vitality, DSTV Rewards, Exclusive Books Fanatics, Legacy Lifestyle, MTN Yellobucks, MySchool MyVillage MyPlanet, Nedbank Greenbacks, Spur Family card, Standard Bank (UCount Rewards), Ster Kinekor SK Club, thank U card and Vodacom VodaBucks. The respective CLPs of Makro and Shell are furthermore excluded since the aforementioned companies are subsidiaries of multinational holding companies. Consequently, financial data relating to Makro and Shell is only presented in their respective multinational holding

company's financial statements, in which case insufficient segmented reporting is available for the researchers to utilise.

Moreover, Checkers Xtra Savings, DStv Rewards, MTN Yellobucks, Shell V+, Shoprite Xtra Savings and Vodacom VodaBucks were all recently launched. Checkers Xtra Savings and Shell V+ were launched in October and December of 2019 respectively (BusinessTech, 2019; Shoprite Holdings Limited, 2020b). 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, 2020a). Therefore, the aforementioned CLPs have not been in operation for sufficient financial data to be available to which longitudinal case study analysis may be applied for the purposes of this study. Consequently, the CLPs that met the selection criteria include:

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

For the purposes of this study, research will be performed on the **Dis-Chem Benefit CLP**, while the remaining researchers will conduct studies on the remaining CLPs selected and meeting the criteria as described above.

1.6.5. SCOPE AND LIMITATIONS OF THE STUDY

Both the larger study and this study seek to answer the research question posed of what the potential tax revenues to the South African *fiscus* would be as a result of taxing CLP rewards awarded to customers. The larger study therefore does not aim to address the taxation consequences of all CLPs due to the fact that a selected number of CLPs will be used within the study. This study will focus on the Dis-Chem Benefit CLP and therefore any findings are to be interpreted in this context. It is important to therefore determine whether the principles used in this study and the larger study may be applied to other CLPs in South Africa, where there may be differing terms and conditions specific to those CLPs. In addition to this, in order to perform research that is suitable for the purpose of

quantifying the amount of potential tax revenues on CLP rewards, the key limitations on the scope of both the larger and this study are explained below:

- The larger study is based on the South African CLP market and therefore only addresses the tax implications of South African CLPs. The findings are thus of limited use to the global market and other jurisdictions where similar circumstances do not exist.
 - This study is further limited to that of the Dis-Chem Benefit CLP and will similarly be of limited use to the global market and other jurisdictions.
- The larger study is limited to the quantifying of potential tax revenues that could be available to the South African *fiscus* and does 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.
 - This study is further limited to that of the Dis-Chem Benefit CLP and therefore the amount of potential tax revenues that could be made available to the South African *fiscus* is only that of the rewards received from customers from the Dis-Chem Benefit CLP.
- The larger study and this study aim to set a starting point for the illumination of what the potential forgone tax revenues may be and do not seek to encompass and generalise the amount of tax revenues that could be generated by taxing all CLPs rewards programmes currently operating in South Africa where similar terms and conditions do not exist.
- The larger study excludes certain types of CLPs that have characteristics that will prevent the researchers from achieving the research objectives, and as a result will only include CLPs that meet the criteria of the study.
 - This study is limited to that of the Dis-Chem Benefit CLP, which as per the conclusion of Section 1.6.4 (Selection of CLPs), does meet the criteria of a CLP.
- 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 so as to determine the viability of taxing CLP rewards in order to serve as a basis for further research on the topic. This study will be further limited as the viability of taxing CLP rewards will be based on a single focus of the Dis-Chem Benefit CLP.

- Both the larger study and this 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.
- This study does not consider customers who use their cards for wholesale purchases of trading stock (Swanepoel & Pidduck, 2020:97).

1.7. STRUCTURE OF THE MINI-DISSERTATION

The main outcomes of the present study are presented in the format of a mini-dissertation. The structure of this mini-dissertation is summarised below.

Chapter 1: Introduction - Chapter 1 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 and research questions, as well as the objectives relevant to the study.

Chapter 2: Literature Review - Chapter 2 contains a critical review of relevant literature related to the taxation of CLPs and CLP rewards earned by customers in South Africa, with a specific analysis of the Dis-Chem Benefit CLP. This chapter also includes a discussion of gross income specifically related to the CLP rewards received from the Dis-Chem Benefit CLP and proposals for mechanisms of taxation of CLP rewards.

Chapter 3: Data analysis and presentation of results - Chapter 3 contains an analysis of the annual financial statements in relation to the IFRS 15 disclosure of the Dis-Chem Benefit CLP. This chapter also includes the calculation of tax revenues that could have been received by the South African *fiscus* through the use of a withholding tax mechanism.

Chapter 4: Conclusion - Chapter 4 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

Chapter 1 initiated Phase 1 of this study and provided an introduction to the concept of CLPs in South Africa. It included the research problem, research questions and objectives of this study. Chapter 2 continues and concludes on Phase 1 of this study, the aim of which is to explore and describe CLPs within a South African context in the form of a literature review. This literature review provides a comprehensive analysis and offers the opportunity to gain a further understanding of CLPs, to analyse the terms and conditions of the Dis-Chem Benefit CLP, and the taxation of the CLP rewards received from the Dis-Chem Benefit CLP, along with the proposed mechanism of taxation of the rewards received from CLPs.

The first research objective is completed in this chapter through the analysis of literature related to CLPs in a South African context, and by the application of the gross income definition to the CLP rewards received by customers from the Dis-Chem Benefit CLP. The second research objective will be achieved in this chapter through an analysis of the terms and conditions specific to the Dis-Chem Benefit CLP and by identifying anomalies from other CLPs in South Africa that were chosen for the larger study.

2.2. CLPs IN A SOUTH AFRICAN CONTEXT

CLPs are designed by companies to provide customers with benefits for remaining loyal to the company (Odendaal & Pidduck, 2014:6). The usage of CLPs in South Africa has seen massive growth with 74 percent of economically active consumers belonging to a loyalty programme (Cromhout, 2021:5). Of these customers, on average each person belongs to 8,7 loyalty programmes. This has seen an increase of more than 55 percent in 2019, which was an average of 5,6 loyalty programmes per person (Cromhout, 2021:8). This statistic indicates that CLPs are becoming more prevalent in South Africa and that considerably more South Africans are preferring to belong to a wide variety of CLPs.

Cromhout (2021:12) analysed the users of CLPs and determined that CLPs are typically used by wealthier South Africans with 80 percent of households with a monthly salary of

more than R80 000 participating in CLPs. In recent years there has been a disparity between the lower income earning households and the higher income earning households according to Cromhout (2021:12). However there has been an increase of CLP users in the lower income earning categories in recent years. The fact that CLPs are typically used by wealthier households will be further discussed in Section 2.6 below.

CLPs are also present in a variety of industries within South Africa, such as retail, financial services, restaurants, travel and various other sectors (Cromhout, 2021:18). With the recent growth seen in the economy of South Africa as indicated by National Treasury (2022a:9), the presence of CLPs in more industries across South Africa is becoming more extensive and the growth in the economy will see a growth in the use of CLPs in South Africa.

Cromhout (2021:10) further analyses the users of CLPs in South Africa by gender and age, with males making use of CLPs more than females. Nevertheless, in a study by Koca and Koc (2016) it was discovered that the behaviour of males towards shopping has changed drastically, with males now believed to spend more time shopping than what was previously perceived. This change in shopping behaviour of males, together with the analysis of users of CLPs in South Africa, assists in supporting the fact that males are making use of CLPs more than females, as males are spending more time in shopping environments.

In addition to the above, South Africa has a growing population with a majority of its population over the age of 35 years classified as employed (South African Government, 2021:3). Users of CLPs are most concentrated from the age of 35 years to 50 years and therefore the growth and usage of CLPs in South Africa will continue as long as the population grows.

While the definition and inner workings of a CLP has evolved over time and may be interpreted in different manners, for the purposes of the study it is beneficial to first understand the various definitions of CLPs, thereafter exploring additional literature related to CLPs. One of the initial documented definitions of a CLP as stated by Sharp and Sharp (1997:474), includes the “structured marketing efforts which reward and therefore encourage loyal behaviour”. Breugelmans *et al.* (2015:218) define a CLP as “continuity

incentive programmes offered by the retailer to reward customers and encourage repeat business”. According to Chun, Iancu and Trichakis (2020:2), CLPs allow “members to earn points for purchases and can redeem (the) accumulated points for rewards” in addition to CLPs having the ability to introduce a “new form of currency” in the form of points.

2.3. UNDERSTANDING CLPs AND THEIR TYPICAL OPERATION

A CLP transaction may have a generalised means of operating, however there is a legal definition of a CLP in a South African context specifically from the Consumer Protection Act No. 68 of 2008 (CPA). The CPA defines a ‘loyalty programme’ in the definition section 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.”

In Section 34 and 35 of the CPA a differentiation is made between ‘trade coupons and similar promotions’ and ‘customer loyalty programmes’ whereby CLPs are considered a legal medium of exchange, whereas ‘trade coupons and similar promotions’ (discounts) are not seen as a medium of exchange. This legal standing has been integrated into Section 1.6.4 (Selection of CLPs), whereby the focus of the study will be on CLPs that are considered as a legal medium of exchange and programmes that offer only ‘trade coupons and similar promotions’ were excluded (as programmes that only offer ‘trade coupons and similar promotions’ will not assist in achieving the research objectives).

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). Olivier and Burnstone (2014:3) categorise CLPs into two main types, namely “rewards programmes” and “customer clubs”:

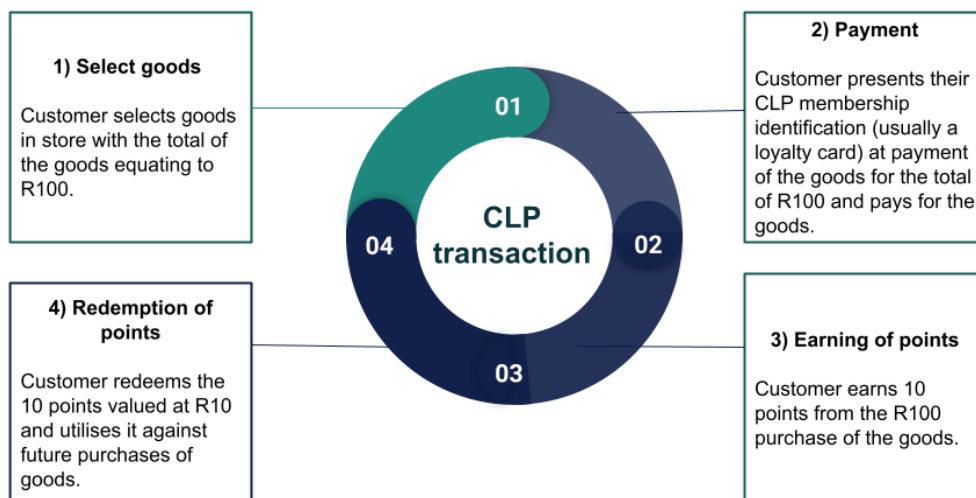
- Rewards programmes encourage specific consumer behaviour and reward customers in the process (Olivier & Burnstone, 2014:3). Customers are rewarded in the form of either a discount on a current transaction, an allocation of loyalty points

that may 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).

Notwithstanding these categories and descriptions, the concept of rewards from CLPs are explored further by Chun *et al.* (2020:2), whereby the idea that CLP rewards are seen as a “new form of currency” is introduced. Quantifying this “new form of currency”, being the rewards received from CLPs, has become a prevalent issue and forms the basis of the difficulty which may be preventing National Treasury from introducing South African legislation to tax these rewards (Swanepoel & Pidduck, 2020:97). The loss of tax revenues that could be collected from a tax on these CLP rewards becomes more extensive in South Africa, as does their popularity (Cromhout, 2021:5). For the purposes of this study an understanding of the typical operation of CLPs is required. Typically, a customer selects goods to purchase, upon payment of the goods 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. Typically, the customer may redeem these CLP rewards against future purchases. This typical working of a CLP is illustrated below in Figure 4.

Figure 4: Typical Operation of a CLP



Source: Own design

One of the most popular CLPs, as documented by Cromhout (2021:5), is the Dis-Chem Benefit CLP which is selected for the purposes of this study. The terms and conditions, operation and anomalies, as contrasted with the “typical operation” of a CLP will be discussed in Section 2.4 which follows, and will assist in gaining a better understanding of the Dis-Chem Benefit CLP, along with achieving the research objectives. This will be achieved through comparing the Dis-Chem Benefit CLP to the definitions described throughout this paragraph and will determine whether the Dis-Chem Benefit CLP meets the definition for the purpose of the study.

2.4. DIS-CHEM BENEFIT CLP

The Dis-Chem Benefit CLP was launched in 2003 and has since been one of the most used CLPs in South Africa (Cromhout, 2021:5; Dis-Chem Pharmacies Limited, 2022b:7). Dis-Chem Pharmacies Limited (Dis-Chem) services 12,2 million customers of which 6,8 million are active Dis-Chem Benefit CLP users, who are responsible for close to 72 percent of all retail sales that Dis-Chem realises (Dis-Chem Pharmacies Limited, 2022b:7). Dis-Chem have further analysed the Dis-Chem Benefit CLP customers in their 2022 integrated report and discovered that these customers on average have a higher basket spend and higher shopping frequency at Dis-Chem than non-benefit members (Dis-Chem Pharmacies Limited, 2022b:11).

2.4.1 REGISTRATION AND EARNING DIS-CHEM BENEFIT CLP POINTS

Customers may register for the Dis-Chem Benefit CLP free of charge and may do so on the mobile app, online, via WhatsApp or in-store (Dis-Chem Pharmacies Limited, 2022c:para. 9). Customers register by completing their details on the application form and registration is available for all persons above the age of 18 years old (Dis-Chem Pharmacies Limited, 2022c:para. 9). Customers who successfully register for the Dis-Chem Benefit CLP are issued with a Dis-Chem Benefit CLP card either physically or virtually on the Dis-Chem mobile app (Dis-Chem Pharmacies Limited, 2022c:para. 6). The Dis-Chem Benefit CLP card remains the property of Dis-Chem, however the accumulated Dis-Chem Benefit CLP points remain the property of the member who registered for the Dis-Chem Benefit CLP (Dis-Chem Pharmacies Limited, 2022c:para. 2).

Members of the Dis-Chem Benefit CLP earn 1,5 percent of the total Rand value spent in the form of Dis-Chem Benefit CLP points and are required to present their physical or virtual Dis-Chem Benefit CLP card at the till. If shopping online they are required to enter their Dis-Chem Benefit card number to earn Dis-Chem Benefit CLP points (Dis-Chem Pharmacies Limited, 2022c:para. 6, para. 11). Dis-Chem have however placed a limitation on which purchases qualify towards this spend, whereby baby products and prescription medication are items that do not qualify towards the earning of points (Dis-Chem Pharmacies Limited, 2022c:para. 24). The points accumulated on the Dis-Chem Benefit CLP card expire within 12 months of the customer earning the points (Dis-Chem Pharmacies Limited, 2022c:para. 15). A short working interpretation of the process of earning Dis-Chem CLP points is illustrated in Example 1 below:

Example 1: Earning of Dis-Chem Benefit CLP points

A customer who has successfully registered for the Dis-Chem Benefit CLP, shops at a Dis-Chem within South Africa and the total value of the items purchased equates to R3 000 of which the amount of R2 600 qualifies for points. After presenting the Dis-Chem Benefit CLP card at the till and paying for the goods, the customer will earn 39 points, which will accrue to them immediately and is available to use at their next purchase. The calculation for the number of points earned is $R2\ 600 \times 1,5 \text{ percent} = 39 \text{ points}$. The customer has a balance of 39 points after the transaction, which are valid for 12 months and will thereafter expire.

Source: Own design

2.4.2 REDEEMING DIS-CHEM BENEFIT CLP POINTS

Each Dis-Chem Benefit CLP point has the equivalent value of R1 and may be redeemed by customers to purchase products from any Dis-Chem store within South Africa (Dis-Chem Pharmacies Limited, 2022c:para. 5, para. 10). Dis-Chem has the right to restrict or cancel any Dis-Chem Benefit CLP points accumulated before redemption of the Dis-Chem Benefit CLP points by the customer (Dis-Chem Pharmacies Limited, 2022c:para. 22). There are no restrictions on the amount of Dis-Chem Benefit CLP points accumulated before the customer redeems their Dis-Chem Benefit CLP points either in-store or online (Dis-Chem Pharmacies Limited, 2022c:para. 12). Dis-Chem Benefit CLP points are only transferrable via the Dis-Chem mobile app to either another valid Dis-Chem Benefit CLP

member or donated to the Dis-Chem Foundation (Dis-Chem Pharmacies Limited, 2022c:para. 17). Dis-Chem Benefit CLP points may not be redeemed for cash and may only be redeemed against the value of a qualifying purchase entered into either in-store or online (Dis-Chem Pharmacies Limited, 2022c:para. 13). When points are redeemed at a future purchase the value of the points earned will be calculated on the total value of the goods purchased minus the value of the points redeemed (Dis-Chem Pharmacies Limited, 2022c:para. 24, para. 30). A short working interpretation of the process of redeeming Dis-Chem Benefit CLP points is illustrated below in Example 2:

Example 2: Redemption of Dis-Chem Benefit CLP points

A customer with a balance of 39 Dis-Chem Benefit CLP points visits a Dis-Chem store and purchases items to the value of R500 of which the full amount qualifies for points. After presenting the Dis-Chem Benefit CLP card at the till, the customer elects to redeem all of their Dis-Chem Benefit CLP points against the purchase. In this case, the customer will earn 6,92 Dis-Chem Benefit CLP points, which will be available for use at their next purchase. The calculation for the number of Dis-Chem Benefit CLP points earned is $(R500 - R39 \text{ [Rand value of Dis-Chem Benefit points redeemed]}) \times 1,5 \text{ percent} = 6,92 \text{ points}$. The customer subsequently has a balance of 6,92 Dis-Chem Benefit CLP points after the transaction, which is valid for 12 months and will thereafter expire.

Source: Own design

2.4.3 ADDITIONAL DIS-CHEM BENEFIT CLP BENEFITS

The Dis-Chem Benefit CLP differentiates itself from other CLPs by offering members, who present their Dis-Chem Benefit CLP virtual or physical card at any Dis-Chem store, further discounts and rewards that may be earned through their loyalty partners, which include Discovery Vitality, Legacy Lifestyle, School-Days, Total Energies, Momentum Multiply, Bestmed, Medihelp and the Dis-Chem Foundation (Dis-Chem Pharmacies Limited, 2022b:11; Dis-Chem Pharmacies Limited, 2022c:12). Furthermore, Dis-Chem Benefit CLP members may obtain a physical copy of the quarterly Dis-Chem magazine at any Dis-Chem store at no cost, provided that they present their Dis-Chem Benefit CLP virtual or physical card (Dis-Chem Pharmacies Limited, 2022c:para. 28). In addition to these benefits, Dis-Chem Benefit CLP members may also receive instant discounts on selected products either through the online or physical Dis-Chem store (Dis-Chem Pharmacies

Limited, 2022c:para. 35). These exclusive offers are available for a limited time and a redemption of points on these discounted offers is prohibited (Dis-Chem Pharmacies Limited, 2022c:para. 35).

The above-mentioned additional benefits will not be considered further, as these benefits do not form part of the definition of a CLP for this study as discussed in Section 2.3. However, these additional benefits assist in differentiating the Dis-Chem Benefit CLP from other CLPs in the larger study. A further comparison between the Dis-Chem Benefit CLP and the other CLPs selected will be presented in Section 2.4.4 which follows.

2.4.4 COMPARISON BETWEEN OTHER SELECTED CLPS

There are a number of characteristics that assist in differentiating the Dis-Chem Benefit CLP from the other CLPs selected for research in the larger study. In Table 3 below, a summary of the attributes of each CLP that has been selected for the larger study is presented.

Table 3: Summary of attributes of CLPs selected for the larger study

Attribute	Dis-Chem Benefit	Clicks ClubCard	Pick n Pay Smart Shopper	FNB eBucks
Spending to points earned ratio	Every 1,5% value of purchases for 1 point	Every R5 spent for 1 point	Every R2 spent for 1 point	Rand value spent (determined by the account type) for 1 point
Value of points in Rands	1 point is R1	10 points is R1	100 points is R1	10 points is R1
Points earned at 3rd parties	Yes	Yes	Yes	Yes
Balance of points required to redeem	No balance required	Yes, 100 points required	Yes, 500 points required	No balance required
Convert into cash	No	No	No	Yes

Redeem points at 3rd party	No	No	Yes	Yes
Donation of points	Yes	No	Yes	Yes
Rewards/points expiry date	Yes, after 12 months	Yes, after 12 months	Yes, after 12 months	None

Sources: (Clicks Retailers (Pty) Limited, 2022; Dis-Chem Pharmacies Limited, 2022c; FirstRand Bank Limited, 2021; Pick n Pay Stores Limited, 2022)

In particular the Dis-Chem Benefit CLP is unlike the other CLPs selected for the larger study when comparing the spending to points earned ratio, considering that it is the only CLP that does not reward customers for every physical Rand spent and rather rewards customers on a percentage basis. Another differentiating feature of the Dis-Chem Benefit CLP would be that the value of each point is equal to R1, whereas each point is worth less than R1 for the other CLPs.

In light of the above it is recognised that customers receive rewards from CLPs that are distinct to the CLP for which the customer has registered. For the purpose of achieving the research objectives, the gross income definition in the Income Tax Act will be applied to the Dis-Chem Benefit CLP points received by customers in paragraph 2.5 below.

2.5. GROSS INCOME ON CLPs

The Income Tax Act seeks to establish the laws relating to the taxation of incomes in South Africa. Taxpayers are required to include amounts in their gross income either if the amount meets the definition of gross income or through a special inclusion. Currently there are no special inclusions listed in the Income Tax Act that cater for CLP rewards received by customers and therefore the general definition of gross income is applied to CLP rewards received by customers for purposes of this study. Section 1 of the Income Tax Act defines gross income as:

- “ (a) In the case of any resident, the total amount, in cash or otherwise, received by or accrued to or in favour of such resident; or
- (b) In the case of any person other than a resident, the total amount, in cash or otherwise, received by or accrued to or in favour of such person from a source within the Republic,

during such year or period of assessment, excluding receipts or accruals of a capital nature.”

Moreover, there are no specific definitions provided for each element of the definition of gross income and therefore principles from case law will be used to analyse whether Dis-Chem Benefit CLP points received by customers comply with the definition of gross income in the Income Tax Act. The three elements of the gross income definition relevant for this study are “total amount in cash or otherwise”, “received by or accrued to” and “excluding receipts or accruals of a capital nature”. The first element of the gross income definition relevant for purposes of this study is “total amount, in cash or otherwise” and is analysed and discussed below.

2.5.1. TOTAL AMOUNT IN CASH OR OTHERWISE

The first element “total amount in cash or otherwise” is not defined in the Income Tax Act and therefore reliance will be placed on the principles of case law to understand and interpret this requirement. In *Lategan v Commissioner for Inland Revenue* (1926) 2 SATC 16, the court held that the word “amount” should be given a meaning that is wider than referring to money and may include the value of every form of corporeal or incorporeal property that has a monetary value. Following the *Lategan* case, the case *Commissioner for Inland Revenue V Butcher Bros (Pty) Ltd* (1945) 13 SATC 21 raised the judgement that an “amount” would need to have an “ascertainable monetary value”. The term “ascertainable monetary value” is further expanded on in *Commissioner for Inland Revenue v Renaissance (Pty) Ltd* (2007) 69 SATC 205, where the Supreme Court of Appeal held that the test for “ascertainable monetary value” is an objective test instead of a subjective test. Dis-Chem Benefit CLP points cannot be converted into Rands, however they have been attributed a value of R1 each according to Dis-Chem Pharmacies Limited (2022c), which proves that an ascertainable monetary value may be attached to the Dis-Chem Benefit CLP points.

The mere fact that Dis-Chem Benefit CLP points cannot be exchanged directly for cash according to Dis-Chem Pharmacies Limited (2022c:para. 13), does not result in the “amount” requirement not being met. This is supported by the judgment in *Lace v Commissioner for Inland Revenue* (1936) 9 SATC 349 in which the value of shares and

share options were seen as complying with the “amount” requirement of the gross income definition. Therefore, the Dis-Chem Benefit CLP points received by customers would comply with the first element of the gross income definition, being “total amount in cash or otherwise.” The second element of the gross income definition relevant for this study is “received by or accrued to” which will be discussed in the following section.

2.5.2. RECEIVED BY OR ACCRUED TO

The second element of the gross income definition, “received by or accrued to”, is not defined in the Income Tax Act, and therefore reliance will be placed on case law to interpret and apply the term to Dis-Chem Benefit CLP points. Wessels CJ (at 102) stated in *Commissioner for Inland Revenue v Delfos*, (1933) 6 SATC 92:

“The difficulty lies in giving a literal meaning to receipts irrespective of when the sums received accrued to the taxpayer. My view is that receipts must, on a proper reading of the Act as a whole and regarding its manifest object be limited to receipts which are truly and properly income for the tax-year and, therefore, have accrued in the year. The contrary view is supported by reference to the unqualified use of the word "received" and by the apparent distinction drawn by the words "or accrued." It is said that this disjunction of terms means that the Legislature has spread two nets, the one to catch all receipts pure and simple regardless of their accrual and the other to catch all accruals regardless of date of their payment (or receipt). Of course "accruals" brought in as such necessarily means that payment is made in a subsequent year, otherwise they would fall into the net of "receipts.”

The court held that that the gross income definition does not require for the amount to be both “received by” and “accrued to” but instead the amount must be at the earlier of “received by” or “accrued to.” For the purposes of this study, the term “received by” will be discussed in relation to the ownership of the Dis-Chem Benefit CLP points and card in Section 2.5.2.1. Following this, the term “accrued to” will be discussed in relation to the expiry, theft and donation of Dis-Chem Benefit CLP points in Section 2.5.2.2.

2.5.2.1. OWNERSHIP OF DIS-CHEM BENEFIT CLP POINTS AND CARD

Geldenhuis v CIR, (1947) 14 SATC 419, established that the amount would only be ‘received by’ the taxpayer if it was received “[on their] own behalf and [for their] own

benefit". In this regard, Dis-Chem Benefit CLP points are earned by customers when the customers purchase goods from Dis-Chem stores (Dis-Chem Pharmacies Limited, 2022c). Consequently, the Dis-Chem Benefit CLP points may be considered the property of the customer and are associated to customers for their own benefit through their Dis-Chem Benefit CLP card. However, the Dis-Chem Benefit CLP card remains the property of Dis-Chem according to Dis-Chem Pharmacies Limited (2022c). Nevertheless the Dis-Chem Benefit CLP points may remain the property of the customer as the ownership of the card is separate to the ownership of the Dis-Chem Benefit CLP points, since customers may earn Dis-Chem Benefit CLP points using their physical or virtual card (Dis-Chem Pharmacies Limited, 2022c). In concluding the first term of "received by", it may be held that upon the earning of Dis-Chem Benefit CLP points customers are considered to have received the points for their own behalf, as the Dis-Chem Benefit CLP points are the property of the customer and may be used by the customers for their own benefit, even though the physical card remains the property of Dis-Chem.

2.5.2.2. EXPIRY, THEFT, AND DONATION OF DIS-CHEM BENEFIT CLP POINTS

The second term of this element is "accrued to", and should the amount comply with this term it would be included in the taxpayer's gross income, regardless of the fact that the amount has been "received by" the taxpayer at a later date. The concept of including the amount in gross income regardless of the amount being "received by" the taxpayer is addressed by Judge Watermeyer J in *Lategan v Commissioner for Inland Revenue* (1926) 2 SATC 16. Watermeyer J held that in the instance where the taxpayer is 'entitled to' the amount, the amount would be deemed to have "accrued to" the taxpayer. This is further supported by a similar ruling in *Commissioner for Inland Revenue v People's Stores (Walvis Bay) (Pty) Ltd* (1990) 52 SATC 9 whereby it was held that taxpayers that had 'become entitled to' amounts are considered to have the amounts "accrued to" them. In *Mooi v SIR*, (1972) 34 SATC 1 the definition of 'entitled to' was expanded upon and it was concluded that taxpayers should be 'unconditionally entitled' to the amount. The final case to be considered is *Commissioner for Inland Revenue v Witwatersrand Association of Racing Clubs* (1960) 23 SATC 380 where Judge Steyn CJ held that taxpayers are to declare, prior to proceeds being received, whether the amounts will be ceded to charities and if found false the full amount considered will be "received by" the taxpayer.

In applying these principles it is submitted that Dis-Chem has the right at any time before redemption to cancel the Dis-Chem Benefit CLP points received by customers (Dis-Chem Pharmacies Limited, 2022c). In addition, Dis-Chem Benefit CLP points expire after 12 months of the customer earning them (Dis-Chem Pharmacies Limited, 2022c). These two conditions may result in customers only becoming “unconditionally entitled” to their Dis-Chem Benefit CLP points upon redemption.

However, in the context of the timing of CLP rewards accruing to taxpayers, 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 Constitutional Court held on both occasions that the S24C allowance requirements were not complied with, as in order for CLP providers to meet the Section 24C requirements, the income accruing should be from the same contract under which the obligation to incur the future expenditure arises. Judge LV Theron (at 37 and 38) explained the following in the *Clicks* case:

“The Supreme Court of Appeal also recognised that the qualifying purchase triggers and gives content to Clicks’ obligation to award points. The main judgment held that “when a qualifying contract of sale is concluded, the obligation on Clicks either to issue vouchers or to honour them, as the case may be, in terms of the ClubCard contract, becomes eligible”. In a similar vein, the concurring judgment held that “[i]f the customer has concluded a ClubCard contract and presents the card at the point of sale, Clicks incurs an obligation under the ClubCard contract to award them points”.

In order to be entitled to a discount equal to the number of points earned during a given qualification period, a customer must conclude a ClubCard contract. This is the contract that entitles the customer to the discount and, if Clicks were to renege on its obligation to honour the redemption of points, the customer’s cause of action would be based on the ClubCard contract. As I discuss in more detail below, the sale contract is closely linked to the ClubCard contract because (subject to sufficient points being earned) it triggers Clicks’ obligation under the ClubCard contract. But while the obligation to honour a redemption of points and the earning of income may occur simultaneously, the obligation is sourced in the ClubCard contract, and the income accrues in terms of the sale contract. For these reasons, Clicks cannot claim a Section 24C allowance on a same-contract basis.” (Emphasis added)

This statement proves that although the provider was unable to claim the S24C allowance on a same-contract basis, it was identified that the provider does have an obligation to award the customer points. Therefore, as a result of the CLP provider having an obligation, the customer may be considered to have an entitlement to the CLP points. As the customer has the entitlement to the CLP points, the value of the Dis-Chem Benefit CLP points earned should be deemed to have “accrued to” the customer.

In addition to the above, Dis-Chem provides customers with the option to donate their Dis-Chem Benefit CLP points to the Dis-Chem Foundation (Dis-Chem Pharmacies Limited, 2022c). This option is given to customers after Dis-Chem Benefit CLP points are earned (but before redemption in the form of goods). Following the judgement in the *Witwatersrand* case taxpayers would therefore be considered as having received the Dis-Chem Benefit CLP points for their own benefit, as they would otherwise be unable to donate these points if ownership did not vest with them.

In light of the above, Dis-Chem Benefit CLP points earned by customers comply with the second element of the gross income definition which is “received by or accrued to”. The requirements for “received by” are met as the Dis-Chem Benefit CLP points are considered the property of the customers, as they are earned independently from the ownership or presentation of cards. The requirements for “accrued to” are met as customers are entitled to and have the right of donation of their Dis-Chem Benefit CLP points and are therefore unconditionally entitled to these points. Nevertheless, there may be an argument that an issue regarding the timing of receipt or accrual may arise, as taxpayers may possibly argue that CLP rewards are “received by or accrued to” at differing times or in different tax years. Swanepoel and Pidduck (2020:92) suggest that any proposed adjustment made to the legislation should clarify this timing issue, which will ensure that there is a “uniform point of taxation” across the multiple CLPs, so that their varied operations do not create additional obstacles for potential tax revenue collection purposes. The third and last element of the gross income definition relevant for this study is “excluding receipts and accruals of a capital nature,” which will be discussed in Section 2.5.3 to follow.

2.5.3. EXCLUDING RECEIPTS OR ACCRUALS OF A CAPITAL NATURE

The third and final element of the gross income definition relevant for this study is “excluding receipts and accruals of a capital nature.” The Income Tax Act does not define this element and therefore guidance will be obtained from case law to apply it to the Dis-Chem Benefit CLP. Swanepoel and Pidduck (2020:93-94) describe this element as both “perplex[ing]” and “controversial” due to the need for a subjective interpretation of the relevant facts in determining whether an amount is revenue or capital in nature.

One of the most relevant cases for this element is *Commissioner for Inland Revenue v Visser*, (1937) 8 SATC 271 in which the concept of a tree bearing fruit is introduced. This principle describes how income (fruit) is what capital (the tree) produces. This can be likened to Dis-Chem Benefit CLP points in that the capital being the Dis-Chem Benefit CLP itself will produce income in the form of Dis-Chem Benefit CLP points for the customer. However, the court held that this is a subjective test and that the facts of each taxpayer should be taken into consideration when determining whether an amount is revenue or capital in nature (*CIR v Visser*, 1937:237). This would result in an instance where the circumstances of each customer who is a member of the Dis-Chem Benefit CLP need to be evaluated when determining whether the Dis-Chem Benefit CLP points earned are revenue or capital in nature. Furthermore, the judgment made in *Pyott Ltd v Commissioner for Inland Revenue* (1945):128-135 AD indicated that if an amount is not capital, then it would be revenue in nature, taking into consideration the intention of the taxpayer.

In addition to the above, the principle of a ‘scheme of profit making’ by customers (*Commissioner for Inland Revenue v Pick ‘N Pay Employee Share Purchase Trust* (1992) 54 SATC 271 (A) (referred to hereafter as “*Pick ‘N Pay*”) is relevant and a ‘scheme of profit making’ is regarded as revenue in nature. In this regard, Cromhout (2021:26-27) identifies that the main reason that customers use CLPs is to get “cashback” which could support the idea that customers are generally entering into a scheme of profit making. The concept of profit making was further expanded in the *Pick ‘N Pay* case, where it was distinguished from “fortuitous gains” (that would be regarded as capital in nature), as opposed to gains that are “purposefully sought and worked for” that would be regarded as revenue in nature. Customers of the Dis-Chem Benefit CLP would therefore need to be further analysed on a case-by-case basis to determine whether they are engaged in an activity of profit making

or customers making fortuitous gains. A clear contrast would need to be made between Dis-Chem Benefit CLP customers who are fully engaged in only purchasing goods at Dis-Chem due to the Dis-Chem Benefit CLP points they may earn (and therefore possible profits made) and casual Dis-Chem Benefit CLP customers who are not engaged in ensuring that they make a “profit” from the Dis-Chem Benefit CLP. Determining the intention of each taxpayer will be impractical for SARS as there are 6,8 million Dis-Chem Benefit CLP customers and more users for other CLPs. Swanepoel and Pidduck (2020:96) suggest that the alternative to determining the intention of each taxpayer, would be to include a special inclusion in the Income Tax Act specifically including CLP rewards earned in the customers’ gross income, therefore “overrid[ing] the capital/revenue [in nature] test.”

2.5.4. CONCLUSION ON GROSS INCOME

The elements of the gross income definition that were relevant for this study that the Dis-Chem Benefit CLP points were applied to were “total amount in cash or otherwise”, “received by or accrued to” and “excluding receipts or accruals of a capital nature”. The first element of “total amount in cash or otherwise” was complied with as Dis-Chem Benefit CLP points have an ascertainable monetary value of R1 each. The second element of “received by or accrued to” was complied with as the requirements for “received by” were met, as customers are not required to present the physical card when earning Dis-Chem Benefit CLP points, and therefore the ownership of the Dis-Chem Benefit CLP points is separate from the card and is for their own benefit. The judgments of *Clicks* and *Big G* cases revealed that CLP providers have an obligation to provide CLP points to their customers when earned, which in turn results in customers having an entitlement to the CLP points. Similarly, Dis-Chem Benefit CLP customers have the right of donation of their Dis-Chem Benefit CLP points, however the ownership of these Dis-Chem Benefit CLP points must first vest in the customer before they have the ability to donate them. Therefore, the requirement of “accrued to” was met as a result of customers having an entitlement to the CLP points earned together with having the right to donate their Dis-Chem Benefit CLP points.

However, there may be an argument that CLP rewards are “received by or accrued to” at differing times or in different tax years. Swanepoel and Pidduck (2020:92) suggest that any

proposed adjustment made to the legislation should clarify this timing issue, which will ensure that there is a “uniform point of taxation” across the multiple CLPs, so that their varied operations do not create additional obstacles for potential tax revenue collection purposes.

The third and final element of “excluding receipts or accruals of a capital nature” required for a determination to be made on each customer’s intention towards the earning of Dis-Chem Benefit CLP points, which was impractical. The remedy for this as suggested by Swanepoel and Pidduck (2020:96), is to introduce a special inclusion in gross income for CLP rewards, which will override the third and final element of the gross income definition. Following this inclusion in gross income, a need arises to determine the necessary mechanism of taxation for these Dis-Chem Benefit CLP points, and this will be discussed further in Section 2.6 below.

2.6. PROPOSED MECHANISM OF TAX ON CLP REWARDS

While Dis-Chem CLP points earned by customers may comply with the definition of gross income in the Income Tax Act as concluded in Section 2.5, a mechanism of collecting and levying the tax on CLP rewards requires consideration. Previous research by Pidduck and Odendaal (2013:1524) and Pidduck *et al.* (2019:639) considered that two methods are available to tax CLP rewards, which would be an inclusion into gross income in their final tax return or a prepayment in the form of a withholding tax.

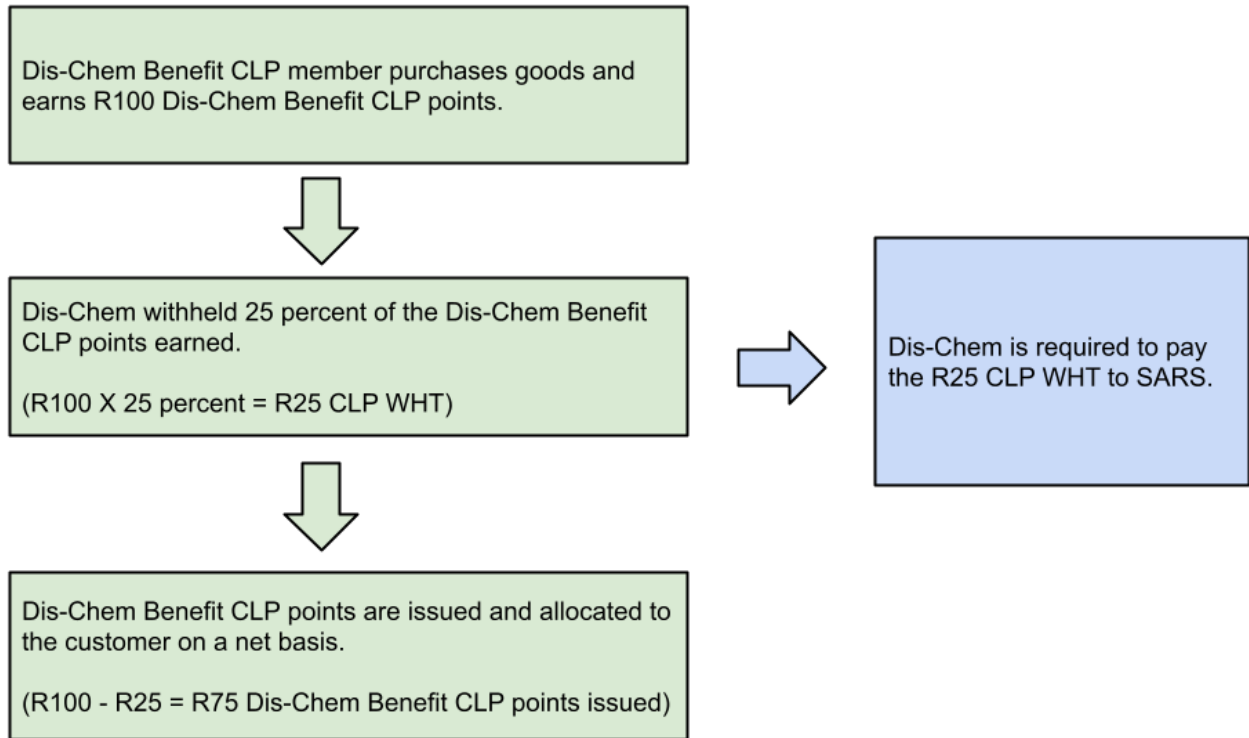
In making these proposals, maintaining the integrity of the CLP's was considered essential in order to prevent the tax from discouraging businesses or taxpayers from participating in them, in addition to the limited resources required for a new tax administration process (Odendaal & Pidduck, 2014:13). Therefore, any system used to collect the taxes on CLP rewards would need to be easy to use, consume the fewest resources possible, and have the least negative influence on the CLPs' real ability to function (Odendaal & Pidduck, 2014:13).

While it is concluded that the Dis-Chem Benefit CLP points earned by customers complies with the definition of gross income and therefore should be included in a customer’s gross income each year, it would result in the application of progressive tax tables to this taxable

income (Pidduck *et al.*, 2019:639). However, the process of including amounts in the gross income of customers requires that taxpayers act honestly, disclose all CLP rewards earned during the year, as well as requiring the customer to be a registered taxpayer in South Africa. According to Section 25 of the Tax Administration Act 28 of 2011, taxpayers must submit a tax return either voluntarily, when required by tax legislation, or as required by the Commissioner of SARS. In this context, it is notable that Cromhout (2021:12) indicates that CLPs are used by 80 percent of higher income-earning households. Notably, lower income-earning households may not reach the taxing threshold, which if met, requires persons to register as a taxpayer. Should these lower income-earning households not be required to register for tax, they would then not be required to include the CLP rewards earned in their gross income, as no tax return is required to be submitted. Additionally, CLP providers would be required to provide customers with the necessary documentation each year to allow for CLP rewards to be included into their taxable income, and this should not create an additional administrative burden for CLP providers, as customers have the ability to view their CLP reward statements through existing platforms (Pidduck *et al.*, 2019:639).

The alternative of the collection of a tax on CLP rewards by means of a mere inclusion into gross income in the tax return of taxpayers, is a prepayment of normal tax in the form of a withholding tax which was suggested by Pidduck *et al.* (2019:639). Withholding tax (WHT) in South Africa is mainly used to impose tax on non-residents as a result of easing the administration burden on non-residents. SARS ensures that tax is collected from residents and thereafter is paid to SARS (Silke, Stiglingh & Koekemoer, 2021:14). The operation of the WHT in this regard would require that the CLP providers withhold a percentage of taxes when a customer earns CLP rewards and the CLP provider would thereafter be obligated to pay the tax to SARS (Pidduck *et al.*, 2019:639). A prepayment of taxes in the form of a WHT ensures that all customers pay the tax, regardless of whether they are registered as a taxpayer or not (Odendaal & Pidduck, 2014:13). This would result in the tax on CLP rewards earned being for all CLP rewards earned, instead of only for customers who are registered taxpayers or compliant taxpayers, as discussed previously. Similarly, a WHT reduces the risk of a perceived additional tax burden by customers, as they would receive the CLP reward after the deduction of the WHT and therefore would only be liable to pay additional tax upon submission of their tax returns (Pidduck & Odendaal, 2013:1528). The typical operation of this WHT is indicated in Figure 5 below.

Figure 5: Operation of WHT for prepayment of tax on CLP rewards



Source: Adapted from Odendaal & Pidduck (2014)

In contrast to implementing a completely new system, the adoption of a WHT (as depicted in Figure 5 above) enables the revenue authority to tax CLP rewards using the same or comparable resources that it currently uses to manage other WHTs (Pidduck & Odendaal, 2013:1528). In addition, compared to a fully new tax, fewer precious skills are invested in developing legislation and the internal mechanisms that go along with it (Odendaal & Pidduck, 2014:13). In determining the WHT rate to be applied for CLP rewards, consideration must be given to the various WHTs currently in operation in South Africa. Table 4 below indicates the selected WHT, and the relevant percentage currently withheld in South Africa.

Table 4: Extract of selected withholding taxes in South Africa

Withholding Tax	Percentage	Section in Income Tax Act
Immovable property sold by non-resident*	7,5 or 10 or 15 percent	S35A
Dividends	20 percent	S64E
Interest (non-residents)	15 percent	S50B
Royalties (non-residents)	15 percent	S49B
Foreign entertainers and sportspersons (non-residents)	15 percent	S47B

Source: Income Tax Act

*The WHT relevant to S35A immovable property sold by non-residents is different from other WHTs, as there is a sliding scale present (related to the person purchasing the property) and due to the fact that the tax withheld reduces the normal tax payable by the non-resident taxpayer (Silke *et al.*, 2021:15).

The WHT in South Africa ranges from 7,5 to 20 percent, however each of these (besides the WHT on immovable property sold by non-residents) is a final tax. In the case of CLP rewards (as proposed by Pidduck *et al.* (2019:636)), the WHT would be similar to that of the WHT on immovable property sold to non-residents, in the sense that the WHT may reduce the normal tax payable by the taxpayers (likened to a prepayment of income tax). Pidduck *et al.* (2019) suggest the rate of 25 percent as the tax on CLP rewards, which is consistent with the legislation regarding part-time and non-standard employees where the tax to be withheld by employers is 25 percent. This suggestion is made due to the fact that there would be an alleviation of additional tax and administrative burdens on SARS. as the WHT rate of 25 percent is currently being used and no additional systems would need to be put in place (Pidduck *et al.*, 2019:639).

Customers that are sensitive to increases in expenditure may find that a tax on any CLP rewards may influence their decision to participate in a CLP and customers may opt to not join a CLP (Odendaal & Pidduck, 2014:14; Pidduck & Odendaal, 2013:1528). However

when a WHT such as that proposed above is imposed, the customer will receive the CLP reward after the tax has been subtracted (as seen in Figure 5 above), so they will not be likely to be required to pay significantly more tax when they file their tax returns (Odendaal & Pidduck, 2014:13). This mechanism is also consistent with a progressive tax system.

A fundamental principle of a progressive tax system is that a progressive tax rate results in greater tax revenue and decreases income inequality (see the progressive tax rates in Table 5 below), where higher income-earning taxpayers would pay a higher rate of tax and a lower tax rate would be applied on lower income-earning taxpayers (Inchauste *et al.*, 2015:35; Lebert, 2021:78). The result thereof would be that a higher tax liability will occur for high income-earning taxpayers upon the assessment of their tax returns, due to the taxpayer being taxed at higher tax brackets than before (Pidduck *et al.*, 2019:639). However, it is argued that given their larger taxable income, these taxpayers are in a much better position to plan for this gap (Pidduck *et al.*, 2019:639).

Pidduck *et al.* (2019) suggest that the proposed mechanism results in a taxpayer either being entitled to a refund or further payment of tax based on their respective tax table applicable. Table 5 below stipulates the progressive tax rates and the paragraphs to follow elaborate on this mechanism.

Table 5: Individual tax tables for 2022 year of assessment

Taxable Income (Rands)	Rate of Tax (Rands)
1 – 216 200	18 percent of taxable income
216 201 – 337 800	38 916 + 26 percent of taxable income above 216 200
337 801 – 467 500	70 532 + 31 percent of taxable income above 337 800
467 501 – 613 600	110 739 + 36 percent of taxable income above 467 500
613 601 – 782 200	163 335 + 39 percent of taxable income above 613 600
782 201 – 1 656 600	229 089 + 41 percent of taxable income above 782 200
1 656 601 and above	587 593 + 45 percent of taxable income above 1 656 600

Source: Income Tax Act

As indicated above in Table 5, customers that may be considered to be lower income-earners (with a rate of tax of 18 percent taxable income) would receive a 7 percent refund on the WHT paid on CLP rewards already paid. In contrast, customers considered to be higher income-earners (with a rate of tax of 45 percent taxable income) would be required to pay an additional 20 percent on CLP rewards. These taxpayers are in a far better position to prepare for this gap (Pidduck *et al.*, 2019:639). In this regard it is relevant to note that Cromhout (2021:12) indicates that CLPs are used more by higher income-earners and therefore fewer refunds of WHT would be paid than additional taxes levied over the rate of 25 percent. Therefore, a rate of 25 percent WHT may be considered conservative, but consistent with that of legislation regarding part-time and non-standard employees where the tax to be withheld by employers is 25 percent.

In addition to the above, resources required to implement a WHT of this nature are significantly reduced due to the fact that automated e-Filing systems may be pre-populated (Odendaal & Pidduck, 2014:13; Pidduck *et al.*, 2019:639). However, this would require CLP providers to make payments to and report to SARS and increase their administrative burdens (Pidduck & Odendaal, 2013:1528). Additionally, as payments of the WHT to SARS may not take place concurrently with customer redemption of the CLP rewards, the cash flow implications may not be aligned (when the deduction for providing the CLP reward would be allowed) (Pidduck & Odendaal, 2013:1529). Similarly, the CLP provider would still be responsible for paying the WHT to SARS, whether or not a client redeemed the CLP reward, which would have an impact on the company's cash flow (Odendaal & Pidduck, 2014:13).

Nevertheless, the administrative and cash flow costs would only apply to companies that choose to operate a CLP; and the proportion of companies affected would be negligible in contrast to the total number of companies or taxpayers in South Africa (Odendaal & Pidduck, 2014:14). This would make it possible for the management of any company to decide if the advantages of using a CLP outweigh the administrative costs (Odendaal & Pidduck, 2014:14). Similarly, this administration burden is substantially less than that experienced should each member of a CLP report their own CLP rewards from each CLP in which they have participated (Odendaal & Pidduck, 2014:14). The Dis-Chem Benefit CLP has 6,8 million active Dis-Chem Benefit CLP users according to Dis-Chem Pharmacies Limited (2022b:7), who would each be responsible to report the CLP rewards

received in their own tax returns. Therefore when comparing 6,8 million tax returns of customers compared to the submission of 1 submission provided by Dis-Chem to SARS, it indicates that it is administratively efficient to use a WHT mechanism as proposed (Odendaal & Pidduck, 2014:13). Furthermore, Cromhout (2021:8) states that customers belong to at least 5 CLPs at any given time and therefore customers would have a significant administrative burden should they be required to self-report the CLP rewards. Therefore, as a result of the benefits discussed above, a collection of a tax on CLP rewards in the form of a WHT is the proposed method of taxation for this study and an applicable rate of 25 percent will be used for the purposes of Chapter 3.

2.7. CONCLUSION

This chapter presented a literature review in which a comprehensive analysis was performed. In Section 2.2 the context of CLPs within South Africa was explored, and it became apparent that CLPs are growing in popularity and that nearly 75 percent of economically active users belong to at least one CLP. The analysis revealed in Section 2.3 that a CLP for the purposes of this study is a loyalty programme that rewards customers in the form of points that can be used at future purchases of goods or services. Moreover, an understanding of the typical operation of a CLP was obtained. However, after an analysis of the Dis-Chem Benefit CLP in Section 2.4 it was discovered that although there is a typical operation, CLPs have features that distinguish each CLP from each other and they are not homogenous. The Dis-Chem Benefit CLP is one of the most popular in South Africa and is the only CLP that rewards customers based on 1,5 percent of their total purchases. Furthermore, the Dis-Chem Benefit CLP card may also be in the form of a physical or virtual card and Dis-Chem Benefit CLP points may be transferred via the Dis-Chem mobile app.

Section 2.5 applied the gross income definition to Dis-Chem Benefit CLP points earned by customers, with the first element of “total amount in cash or otherwise” being complied with as the value that may be placed on Dis-Chem Benefit CLP points is R1, which means that they have an ascertainable monetary value. The second element of “received by or accrued to” was complied with as the requirements for “received by” were met, as customers are considered to have received the points for their own benefit and on their own behalf, as the Dis-Chem Benefit CLP points are the property of the customer even

though the physical card remains the property of Dis-Chem. The requirement of “accrued to” was met as a result of customers having the entitlement to their Dis-Chem Benefit CLP points following the judgement from the *Clicks* and *Big G* cases, whereby it was established that the CLP provider has the obligation to provide the CLP points earned to the customers. In addition, customers have the right to donate their Dis-Chem Benefit CLP points which means that the Dis-Chem Benefit CLP points first vested with the customer, and therefore the requirement of “accrued to” was further complied with.

However, taxpayers may possibly argue that CLP rewards are “received by or accrued to” at differing times or in different tax years. Swanepoel and Pidduck (2020:92) suggest that any proposed adjustment made to the legislation should clarify this timing issue which will ensure that there is a “uniform point of taxation” across the multiple CLPs, so that their varied operations do not create additional obstacles for potential tax revenue collection purposes.

The third and final element of “excluding receipts or accruals of a capital nature” was evaluated and it was determined that the nature of each taxpayer would need to be established, in order for this requirement to be met. It would be impractical for SARS to determine the intention of each taxpayer and therefore the remedy suggested by Swanepoel and Pidduck (2020:96) is to create a special inclusion in the gross income definition, resulting in the burden on SARS to determine the intention of each taxpayer being removed.

Finally, an examination of the mechanisms to collect the tax on CLP rewards through the use of a WHT (a prepayment of the final income tax) was performed. The conclusion in this regard was that a prepayment of taxes through the use of a WHT (at a rate of 25 percent) be introduced. The benefit of this mechanism includes the maintenance of a progressive structure for purposes of South Africa’s goal of redistribution and equality. Similarly, customers not registered as taxpayers would still pay the WHT, customers would receive the CLP rewards net of tax and would therefore be less impacted by negative perceptions of the tax obligations. Lastly, there would be less administrative burden on taxpayers and SARS, as CLP providers would be liable to pay the WHT to SARS instead of customers, and the current tax administrative system could be used with very little modification.

The following chapter (Chapter 3) will constitute Phase 2 of the study and quantify the tax revenue that could have been generated from the Dis-Chem Benefit CLP since the introduction of IFRS 15 disclosure requirements.

CHAPTER 3: DATA ANALYSIS AND RESULTS

3.1. INTRODUCTION

Chapter 2 concluded on Phase 1 of this study, the aim of which was to explore and describe CLPs within a South African context in the form of a literature review. Chapter 3 comprises Phase 2 of this study, the aim of which is to quantify the Dis-Chem Benefit CLP points received by customers on a longitudinal basis, by analysing the annual financial statements of Dis-Chem. Thereafter quantifying the tax revenues that the South African *fiscus* could have received by taxing these CLP rewards will be undertaken. In addition, an analysis of IFRS 15 will be conducted, in order to gain an understanding of the accounting disclosures that allow for the quantification of the CLP rewards of the Dis-Chem Benefit CLP. Consequently, the third research objective is completed in this chapter through the analysis of the annual financial statements of Dis-Chem, in order to quantify the value of Dis-Chem Benefit CLP points issued to customers since 2018. The fourth research objective will also be achieved in this chapter through applying the proposed mechanism of taxation for CLP rewards to the Dis-Chem Benefit CLP points issued to customers and quantifying the cumulative tax revenues.

3.2. IFRS 15 CLP INTERPRETATION

The accounting treatment of CLP rewards is prescribed by International Financial Reporting Standard (IFRS) 15, which mandates that revenue earned by awarding CLP customers with rewards be separately recognised and disclosed. The treatment of revenue earned through the awarding of CLP rewards, was not specifically addressed in the previous accounting standard, IFRIC 13 (International Accounting Standards Board, 2018:922-933). The general accounting of revenue prescribed by IFRS 15 may be summarised into five steps (International Accounting Standards Board, 2018:870):

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.

Step 1 gives guidance on how to identify the contract and parties to the contract. **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 (International Accounting Standards Board, 2018:910). **Step 3** provides guidance on determining the price of the transaction. **Step 4** indicates how the total transaction price must be split between each performance obligation. **Step 5** indicates when revenue may be recognised. The general principle is that revenue may only be recognised once the benefits have been transferred to the customer. Specific guidance on the application of IFRS 15 to CLPs is given in Appendix B to the standard (International Accounting Standards Board, 2018:964).

IFRS 15 indicates that the sale of goods and the earning of CLP rewards are two separate performance obligations. While the transaction price is the full price of goods sold, this transaction price must be allocated between the two performance obligations, namely sale of goods and CLP rewards earned. Revenue relating to the sale of goods may be recognised upon time of the sale, but the portion of revenue from CLP rewards must be recognised as a contract liability and may only be recognised as revenue when the CLP rewards have been utilised by the customer or have expired.

A “contract liability” is the IFRS 15 term used for the liability account 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 (International Accounting Standards Board, 2018:910). IFRS 15 requires that a portion of the consideration from a transaction should be allocated to the CLP rewards earned by customers and therefore the consideration for these CLP rewards is considered to have already been received. The result of the consideration for the CLP rewards being received (before the benefits of the CLP rewards being used) is that the CLP provider has an obligation to transfer the CLP rewards to the customer and a contract liability will be disclosed. Essentially, the contract liability is an account to temporarily store the value of CLP rewards as these are ‘owed’ to the customer (International Accounting Standards Board, 2018:963-964).

The value of the revenue relating to the CLP rewards is based on the provider’s expectation of the amount of CLP rewards that may be utilised and redeemed against future purchases. This expectation is determined by each individual CLP provider by

analysing past redemption of CLP rewards to predict future redemption (International Accounting Standards Board, 2018:964). IFRS 15 does not prescribe a method on how the expectation value should be determined, and thus judgement is required. Furthermore, the CLP reward revenue may only be recognised as revenue when this reward is exercised or has expired (International Accounting Standards Board, 2018:881). A short example using the Dis-Chem Benefit CLP to aid the explanation of the recognition of revenue and disclosure of a contract liability, according to IFRS 15, for the earning of Dis-Chem Benefit CLP points is illustrated in Example 3 below:

Example 3: IFRS 15 revenue and contract liability explanation

Facts

At the start of their financial year, Dis-Chem has an opening balance of R250 000 for their contract liability. During the current financial year, Dis-Chem customers purchased R30 000 000 worth of goods. It is expected that 90 percent of Dis-Chem Benefit CLP points earned will be redeemed at future purchases. This expectation is based on past experience at Dis-Chem. During the financial year 500 000 Dis-Chem Benefit CLP points were redeemed and 50 000 Dis-Chem Benefit CLP points expired.

Calculation of Dis-Chem Benefit CLP points issued during the year that are expected to be redeemed

Dis-Chem customers earn 1 Dis-Chem Benefit CLP point for every 1,5 percent spent at Dis-Chem, therefore a total of 450 000 Dis-Chem Benefit CLP points are issued during the financial year (R30 000 000 spent X 1,5 percent = 450 000). Dis-Chem expects that 90 percent of Dis-Chem Benefit CLP points will be redeemed and therefore the 90 percent will be the expectation used to calculate the contract liability. Therefore, the value of Dis-Chem Benefit CLP points issued during the year that are expected to be redeemed before expiry is R405 000 (450 000 X 90 percent). This value will be disclosed in the financial statements of Dis-Chem as “Points issued”.

Calculation of IFRS 15 revenue (normal sales and CLP rewards)

Dis-Chem is required to allocate the transaction price to the two performance obligations based on a proration. The gross value of the sales is R30 000 000, and the gross value of the Dis-Chem Benefit CLP points issued and expected to be redeemed is R405 000, with the total of the performance obligations being R30 405 000 (R30 000 000 + R405 000).

The total consideration received by Dis-Chem is R30 000 000 and therefore this is the transaction price that will be allocated to each performance obligation. The allocated value of sales is R29 600 000 ($[\text{R}30\,000\,000 / \text{R}30\,405\,000] \times \text{R}30\,000\,000 = \text{R}29\,600\,000$ rounded) and the allocated value of Dis-Chem Benefit CLP points is R400 000 ($[\text{R}405\,000 / \text{R}30\,405\,000] \times \text{R}405\,000 = \text{R}400\,000$ rounded).

IFRS 15 presentation and disclosure required

Dis-Chem would be required to recognise R29 600 000 as revenue earned at a point in time as a result of the sales made to customers during the year. Dis-Chem would be required to recognise R500 000 as revenue earned over time as a result of the Dis-Chem Benefit CLP points that were redeemed during the year.

Dis-Chem would be required to disclose R250 000 as the opening balance of their contract liability and add the R405 000 additional allocation as a result of the Dis-Chem Benefit CLP points issued during the year and expected to be redeemed before expiry. The value of the Dis-Chem Benefit CLP points redeemed during the year of R500 000 and expired during the year of R50 000 will be deducted from the contract liability. The closing balance of the contract liability would be R105 000.

Source: Own design

A further illustration of the balance of the contract liability for Dis-Chem, as described in Example 3, is indicated below in Table 6 below:

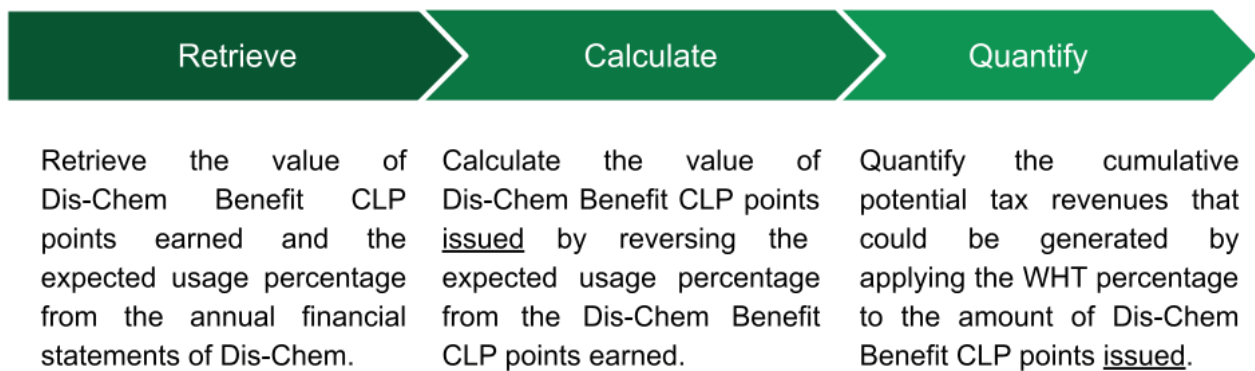
Table 6: Example of IFRS 15 implications

Reconciliation of movement in the contract liability account	Rand
Opening balance of the contract liability	250 000
Plus: Dis-Chem Benefit CLP points issued during the year that are expected to be redeemed before expiry.	405 000
Minus: Dis-Chem Benefit CLP points redeemed during the year	(500 000)
Minus: Dis-Chem Benefit CLP points that have expired during the year	(50 000)
Equals: Closing balance of the contract liability	105 000

Source: Own design

Table 6 above indicates the movements that will be evident for Dis-Chem in the contract liability account as required by IFRS 15 and based on Example 3. For the purposes of this study, the value of the Dis-Chem Benefit CLP points that have been issued during the year and expected to be redeemed before expiry will be used as the base of the calculation to value CLP rewards issued to customers. Thereafter the expected usage percentage will be applied to the amount to determine the gross amount of the Dis-Chem Benefit CLP points issued by Dis-Chem. The value of the Dis-Chem Benefit CLP points issued may thereafter be used to quantify the potential tax revenue that the South African *fiscus* could have received by introducing a tax on CLP rewards received by customers. Figure 6 below summarises the method to determine the potential tax revenues by taxing CLP rewards.

Figure 6: Method to determine the potential tax revenues on CLP rewards



Source: Own design

The financial statements of Dis-Chem for the 2018, 2019, 2020, 2021 and 2022 financial years are analysed in Section 3.3 below to retrieve the value of Dis-Chem Benefit CLP points issued for each year and the applicable expected usage percentage that was applied to determine the amounts required for this study.

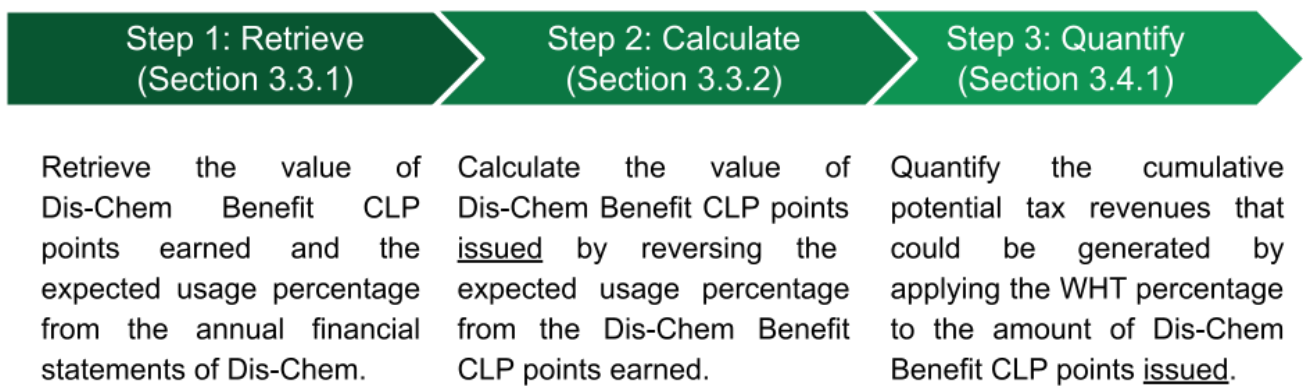
3.3. QUANTIFYING DIS-CHEM BENEFIT CLP POINTS ISSUED

The value of CLP rewards may be determined as a result of the implementation of the accounting standard IFRS 15 in 2018 which has superseded IFRIC 13, the previous standard responsible for the accounting of CLP rewards earned by customers (International Accounting Standards Board, 2018:922-933). Dis-Chem is a public company and as a result is required to comply with IFRS according to Section 29 of the Companies

Act No.71 of 2008 (Companies Act). Therefore, the value of Dis-Chem Benefit CLP points issued during the year that are expected to be redeemed before expiry should be disclosed (or be able to be calculated from disclosures) in the Dis-Chem annual financial statements from the 2018 financial year. The Dis-Chem financial year runs from 1 March to 28 February and the 2018 – 2021 annual financial statements analysed have been audited by Ernst and Young Incorporated, with the 2022 annual financial statements audited by Mazars Incorporated (Dis-Chem Pharmacies Limited, 2018:11; Dis-Chem Pharmacies Limited, 2019:15; Dis-Chem Pharmacies Limited, 2020:17; Dis-Chem Pharmacies Limited, 2021:17; Dis-Chem Pharmacies Limited, 2022a:15).

The value of Dis-Chem Benefit CLP points issued has been calculated by reversing the effect of the expected usage percentage to the disclosed value of the Dis-Chem Benefit CLP points earned and expected to be redeemed. Once the Dis-Chem Benefit CLP points issued are calculated, the suggested WHT rate is applied to quantify the potential tax revenue that the South African *fiscus* could have generated if a tax on CLP rewards was introduced. The above process has been summarised below in Figure 7 below.

Figure 7: Steps to quantify potential tax revenues on CLP rewards



Source: Own design

Step 1 of the process to quantify the potential tax revenues from Dis-Chem Benefit CLP points issued, which is to retrieve the relevant amounts, is addressed in Section 3.3.1 below.

3.3.1. STEP 1: RETRIEVE VALUES FROM FINANCIAL STATEMENTS

The first step in quantifying the potential tax revenue from CLP rewards is to retrieve the amount of Dis-Chem Benefit CLP points issued during each year from 2018 and to obtain the expected usage percentage for each of these years. This will be achieved through analysing the disclosures in the annual financial statements of Dis-Chem. The disclosure in the financial statements is similar to the reconciliation presented in Table 6 in Section 3.2. The value of Dis-Chem Benefit CLP points issued (after having accounted for those points that are not expected to be redeemed) has been retrieved from each set of financial statements and is illustrated in Table 7 below.

Table 7: Value of Dis-Chem Benefit CLP points issued since 2018

Dis-Chem financial year-end	Dis-Chem Benefit points issued (that are expected to be redeemed)	Reference (financial statements)
2018	R149 588 000	(Dis-Chem Pharmacies Limited, 2019:107)
2019	R144 918 000	(Dis-Chem Pharmacies Limited, 2019:107)
2020	R167 912 000	(Dis-Chem Pharmacies Limited, 2020:135)
2021	R264 096 000	(Dis-Chem Pharmacies Limited, 2021:128)
2022	R143 782 000	(Dis-Chem Pharmacies Limited, 2022a:122)

Source: Own Design

*IFRS 15 Disclosure was implemented for financial statements with the year end after 1 January 2018, however the disclosure appeared in the 2019 annual financial statements.

In each set of their company financial statements, Dis-Chem have disclosed the expected redemption rate of points to be recognised as revenue before expiry. Table 8 below sets out this rate, which has been used in calculating the Dis-Chem Benefit CLP points issued each year since 2018.

Table 8: Dis-Chem Benefit CLP point expected redemption rate

Dis-Chem financial year-end	Dis-Chem Benefit CLP points redemption rate	Reference (financial statements)
2018	90 percent	(Dis-Chem Pharmacies Limited, 2019:107)
2019	90 percent	(Dis-Chem Pharmacies Limited, 2019:107)
2020	90 percent	(Dis-Chem Pharmacies Limited, 2020:135)
2021	90 percent	(Dis-Chem Pharmacies Limited, 2021:128)
2022	100 percent	(Dis-Chem Pharmacies Limited, 2022a:122)

Source: Own design

The next step in the process of quantifying the potential tax revenue from taxing CLP rewards is to calculate the Dis-Chem Benefit CLP points issued, which is completed in Section 3.3.2 below.

3.3.2. STEP 2: CALCULATE DIS-CHEM BENEFIT CLP POINTS ISSUED

The second step in the process to quantify potential tax revenue from CLP rewards is to calculate the Dis-Chem Benefit CLP points issued before the adjustment for expected redemption. This will be achieved by dividing the Dis-Chem Benefit CLP points issued by the expected redemption rate. Table 9 below indicates the outcome of the calculation of Dis-Chem Benefit CLP points before the adjustment for expected redemption from 2018.

Table 9: Calculation of Dis-Chem Benefit CLP points issued

Dis-Chem financial year-end	Calculation	Dis-Chem Benefit CLP points issued
2018	R149 588 000 / 90 percent	R166 208 000
2019	R144 918 000 / 90 percent	R161 020 000
2020	R167 912 000 / 90 percent	R186 568 000
2021	R264 096 000 / 90 percent	R293 440 000
2022	R143 782 000 / 100 percent	R143 782 000

Source: Own design

The financial statements of Dis-Chem (company) were analysed, and the relevant figures were retrieved in order to calculate the Dis-Chem Benefit CLP points issued each year since 2018. These values will be applied to the WHT percentage in Section 3.4, to quantify the amount of taxation that the *fiscus* could have generated should a taxation on CLP rewards have been introduced.

3.4. QUANTIFYING TAXATION AND FURTHER COMMENTARY

The next step to achieve the research objective is to apply the WHT to the value of Dis-Chem Benefit CLP points that have been issued to customers from 2018 to 2022.

3.4.1. STEP 3: QUANTIFY POTENTIAL TAX REVENUE

The value of Dis-Chem Benefit CLP points issued has been calculated in Step 2 in Section 3.3.2 above. Table 10 below indicates the potential tax revenue that the *fiscus* could have generated, should a WHT on CLP rewards have been introduced.

Table 10: Quantifying tax revenue of Dis-Chem Benefit CLP points

Dis-Chem financial year end	Dis-Chem Benefit CLP points issued	Potential tax revenue (WHT of 25 percent)
2018	R166 208 000	R41 552 000
2019	R161 020 000	R40 255 000
2020	R186 568 000	R46 642 000
2021	R293 440 000	R73 360 000
2022	R143 782 000	R35 946 000
TOTAL	R951 018 000	R237 755 000

Source: Own design

The potential total WHT revenue on CLP rewards since 2018 amounts to R237 755 000. When compared to the government tax shortfall of R40 billion, as discussed by National Treasury (2021b:38), this represents 0,59 percent of this shortfall. This will be further discussed below. The rate of WHT used for the quantification of tax revenue of 25 percent was conservative when considering that the highest marginal rate is 45 percent for individuals (Section 2.6).

In addition to the above, Cromhout (2021:12) indicated that CLPs are used more by higher income-earners and therefore fewer refunds of WHT would be paid than additional taxes levied over the WHT rate of 25 percent. In addition, Cromhout (2021:8) states that customers belong to at least 5 CLPs at any given time and therefore using the tax returns would result in an even greater burden on customers. Therefore, the *fiscus* may rely on this source of revenue, as wealthier taxpayers would tend to pay more than the 25 percent tax, due to being in higher tax brackets and belonging to multiple CLPs. Consideration however needs to be given to the CLP providers, as they would need to determine whether the costs on their business outweigh the benefits received.

The payment and reporting obligations to SARS will become more stringent for entities implementing a CLP. The CLP and customer relations departments within these organisations may require more resources as a result of this (Odendaal & Pidduck, 2014:14). Similar to this, the financial department would be required to manage and pay the WHT to SARS on a regular basis, which might not correspond with the customers redeeming their CLP rewards (Odendaal & Pidduck, 2014:14). Ultimately, this would have less favourable cash flow implications for the CLP provider, because there would be a cash flow impact regardless of whether a client redeemed the CLP rewards, as the business would be required to pay the WHT to SARS before CLP rewards would be redeemed (Odendaal & Pidduck, 2014:14).

However, it is important to note that the Dis-Chem Benefit CLP is not the only CLP available in South Africa and should a tax be introduced for CLP rewards; all other CLPs in South Africa would be required to comply. Therefore, the possible contribution from all CLPs in South Africa would assist in the collection of additional tax revenues for the *fiscus* in addition to that calculated in this study. When considering that an increase in tax of up to R40 billion would be needed to help to 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, 2021b:39), it may be concluded that tax on CLP rewards would assist in reducing the South African government deficit significantly (Pidduck & Odendaal, 2013:1532).

3.5. CONCLUSION

This chapter took the form of a discussion and analysis of financial data. In Section 3.2 an analysis of IFRS 15 was performed, in order to gain an understanding of the accounting disclosures that allow for the quantification of the value of Dis-Chem Benefit CLP points issued by Dis-Chem to customers. The result of this analysis was that the financial statements would disclose the amount of Dis-Chem Benefit CLP points issued after applying an expected redemption percentage, as this was required by IFRS 15 disclosure related to contract liabilities (deferred revenue). Section 3.3 started the process of quantifying the potential tax revenue from CLP points issued, by retrieving the financial data from the Dis-Chem annual financial statements from 2018 to 2022. In **Step 1** this financial data was the value of the Dis-Chem Benefit CLP points earned by customers and

the redemption rate used in the IFRS 15 disclosure of the contract liabilities related to Dis-Chem Benefit CLP points. In addition, Section 3.3 calculated the value of Dis-Chem Benefit CLP points issued each year in **Step 2**, by removing the applied redemption rate from the CLP points earned. The total amount of Dis-Chem Benefit CLP points issued between 2018 – 2022 amounted to R951 018 000. Section 3.4 completed the process by quantifying the amount of tax revenue in **Step 3** by applying the proposed WHT rate of 25 percent to each value of Dis-Chem Benefit CLP points issued. The total amount of tax revenue from Dis-Chem Benefit CLP points issued between 2018 – 2022 amounted to R237 755 000. Lastly, Section 3.4 also included further commentary and discussion around the mechanism of taxing CLP rewards earned and motivated the importance of introducing a tax on CLP rewards in the hands of the customers.

The following chapter (Chapter 4) will constitute Phase 3 of this research and will use the findings from Phases 1 and 2 to answer the research question and address the research objectives by concluding on the amount of tax revenue that the South African *fiscus* could have received should a taxation on CLP rewards be introduced for the selected CLP.

CHAPTER 4: CONCLUSION

4.1. INTRODUCTION

As discussed in Chapter 1, there has been substantial growth in CLPs in South Africa over the past decade and they are used by over 74 percent 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, 2013:1521). This considered in conjunction with the need to increase the amount of tax by R40 billion, which would assist in stabilising public debt and returning public finances to a sustainable portion thereby getting the economy running smoothly again, as described by National Treasury (2021b:39), creates a necessity for research into the potential tax revenue that the South African *fiscus* could generate by introducing a taxation on CLP rewards received by customers.

In this context, the aim of this study is to fill a gap in taxation of CLP rewards research by quantifying the potential tax revenue that the *fiscus* could receive should a taxation on CLP rewards be introduced. In addition to the literature review analysis performed, a single-case study analysis was performed on the Dis-Chem Benefit CLP, whereby the financial statements of Dis-Chem were analysed, and the potential tax revenue was quantified on Dis-Chem Benefit CLP points earned by customers. This chapter concludes on each of the objectives and provides a conclusion to this study.

4.2. ACHIEVMENT OF THE RESEARCH OBJECTIVES

The following research objectives were pursued in achieving the aim of the larger study:

- 1. 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 the Income Tax Act No. 58 of 1962.**
- 2. 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. **Analyse the annual financial statements of the providers of the selected CLPs in order to quantify the value of the CLP rewards issued to customers.**
4. **Quantify the cumulative potential tax revenues forgone by the South African *fiscus* as a result of not taxing CLP rewards.**
5. Compare the taxation of CLPs to other jurisdictions using authoritative literature.
6. 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.

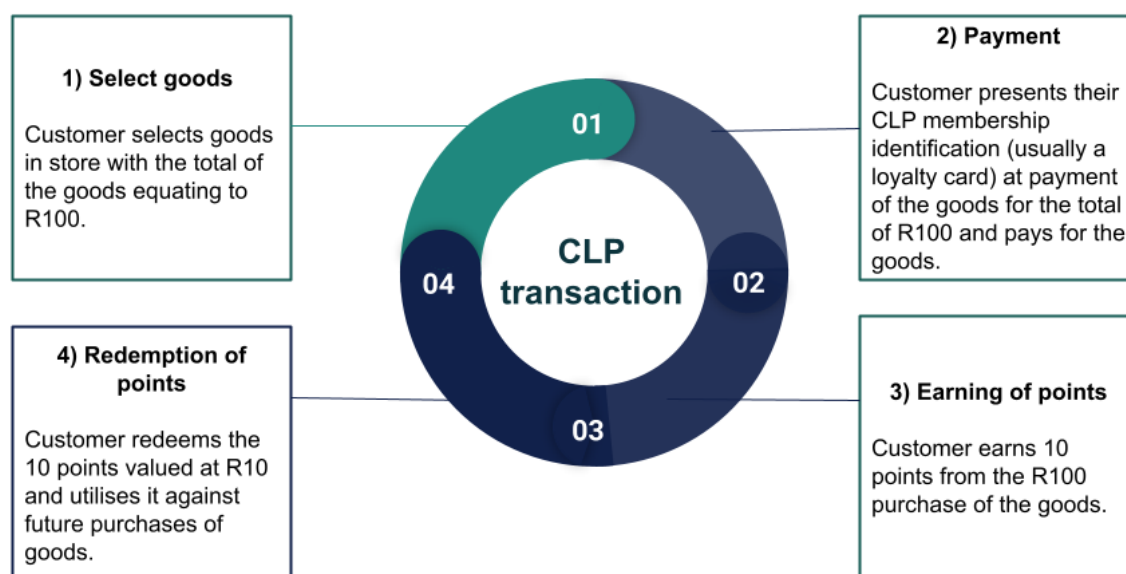
While the objectives stated above are those to be achieved for the larger study, the focus of this study is limited in scope to Objectives 1-4. In order to achieve these research objectives, a qualitative research methodology approach was adopted on a single longitudinal instrumental case study basis. The longitudinal instrumental case study used in this study, was carried out in 3 phases, namely **Phase 1**, which consisted of the literature review and case study research (Chapter 1 and 2), **Phase 2**, which comprised of the longitudinal case study research and data analysis (Chapter 3), and **Phase 3** which included the conclusion and recommendations (Chapter 4).

This study focused on the Dis-Chem Benefit CLP and the paragraphs to follow explain how each research objective was achieved throughout this study.

4.2.1. DEFINE CHARACTERISTICS OF A CLP

Chapter 2 explained the typical operation of a CLP for the purposes of this study which entails that a customer selects goods to purchase, and upon payment of the goods 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 (Section 2.3). Typically, the customer may redeem these CLP rewards against future purchases. The typical operation of a CLP for the purposes of this study has been summarised in Figure 8 below.

Figure 8: Typical operation and characteristics of a CLP



Source: Own design (refer to Figure 4 in Section 2.3)

These were the **typical operation and characteristics of a CLP for the purposes of this study**. Therefore, CLPs that only provided upfront discount and other benefits not in the form of CLP points, were excluded for consideration of the study.

Subsequent to the determination of the characteristics of a CLP for the purposes of this study, these were tested against the characteristics of the CLP selected, Dis-Chem Benefit, to determine whether it was relevant to this study.

4.2.2. APPLYING THE CLP DEFINITION TO DIS-CHEM

Chapter 2 evaluated the terms and conditions as well as the operation of the Dis-Chem Benefit CLP (Section 2.4). In this instance, it was discovered that the programme consists of two different parts, and does not impose a membership fee (Section 2.4.1). The earning of Dis-Chem Benefit CLP points serves as one part, and upfront discounts and promotions serve as a second. Although the upfront discounts were excluded from the scope of this study, the earning of points (via CLP rewards) was included in the scope. As a result, it was determined that for the purposes of this study, **earning Dis-Chem Benefit CLP points as part of the Dis-Chem Benefit CLP is included in the definition of a CLP** for the purposes of this study (Section 2.4.4).

Although there is a typical operation of CLPs in South Africa (as discussed in Section 2.3), CLPs have features that distinguish each CLP from the other and they are not homogenous (Section 2.4.4). In particular the Dis-Chem Benefit CLP is unlike the other CLPs selected for the larger study when comparing the spending to points earned ratio, considering that it is the only CLP that does not reward customers for every physical Rand spent and rather rewards customers on a percentage basis. Another differentiating feature of the Dis-Chem Benefit CLP would be that the value of each point is equal to R1, whereas each point is worth less than R1 for the other CLPs. Therefore, it was determined that a specific evaluation of the Dis-Chem Benefit CLP versus the Act's definition of gross income was necessary (Section 2.5).

4.2.3. APPLYING THE GROSS INCOME DEFINITION TO DIS-CHEM

Chapter 2 addressed the Income Tax Act definition of gross income and for the purposes of this study, 3 elements of the definition were applied to Dis-Chem Benefit CLP points earned by customers to determine whether they should be included in the customers' taxable income (Section 2.5). The first element was "total amount in cash or otherwise" which was complied with, as the value that may be placed on Dis-Chem Benefit CLP points is R1, which means that they have an ascertainable monetary value (Section 2.5.1).

The second element was "received by or accrued to" which was complied with, as the requirements for "received by" were met, as customers are considered to have received the points for their own benefit and on their own behalf, as the Dis-Chem Benefit CLP points are the property of the customer, even though the physical card remains the property of Dis-Chem (Section 2.5.2.1). The requirement of "accrued to" was met as a result of customers having the entitlement to their Dis-Chem Benefit CLP points following the judgement from the *Clicks* and *Big G* cases, whereby it was established that the CLP provider has the obligation to provide the CLP points earned, and as a result the customer has the entitlement to the CLP points, meaning that the CLP points have "accrued to" the customer (Section 2.5.2.2). In addition, customers have the right to donate their Dis-Chem Benefit CLP points which implied that the ownership of the Dis-Chem Benefit CLP points first vested with the customer, and therefore the requirement of "accrued to" was further complied with (Section 2.5.2.2).

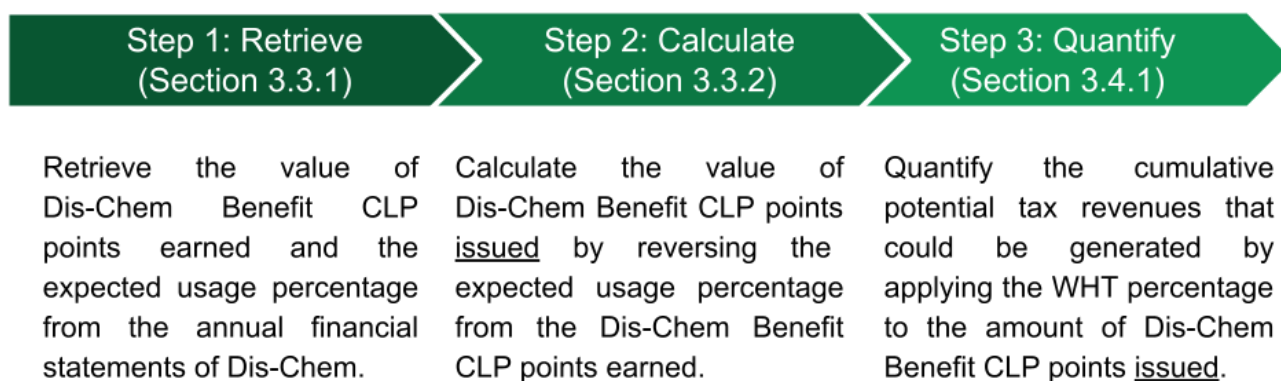
However, there may be an argument that CLP rewards are “received by or accrued to” at differing times or in different tax years. Swanepoel and Pidduck (2020:92) suggest that any proposed adjustment made to the legislation should clarify this timing issue which will ensure that there is a “uniform point of taxation” across the multiple CLPs, so that their varied operations do not create additional obstacles for potential tax revenue collection purposes.

The third and final element of “excluding receipts or accruals of a capital nature” was evaluated and it was determined that the nature of each taxpayer would need to be established, in order for this requirement to be met (Section 2.5.3). It would be impractical for SARS to determine the intention of each taxpayer and therefore the remedy suggested by Swanepoel and Pidduck (2020:96) is to **create a special inclusion in the gross income definition for CLP rewards earned by customers**, resulting in the burden on SARS to determine the intention of each taxpayer being removed.

4.2.4. QUANTIFY VALUE OF CLP REWARDS ISSUED AND CUMULATIVE POTENTIAL TAX REVENUES

Chapter 3 demonstrated that the annual financial statements of Dis-Chem were in compliance with IFRS 15 and disclosed the Dis-Chem Benefit CLP points issued (after applying the expected redemption rate) (Section 3.2). The amount presented in the financial statements (as seen in Table 6) is disclosed after applying the redemption percentage required by IFRS 15. Therefore, the redemption percentage was to be removed from the amount presented (Section 3.2). This discovery led to the following steps depicted in Figure 9 below, in order to quantify the cumulative potential tax revenue that the *fiscus* could generate from the Dis-Chem Benefit CLP.

Figure 9: Process to quantify potential tax revenue



Source: Own design (refer to Figure 7 in Section 3.3)

The process of quantifying the potential tax revenue from CLP points issued started by retrieving the financial data from the Dis-Chem annual financial statements from 2018 to 2022 in **Step 1** (Section 3.3.1). The financial data that was retrieved was the value of the Dis-Chem Benefit CLP points earned by customers and the redemption rate used in the IFRS 15 disclosure of the contract liabilities related to the Dis-Chem Benefit CLP points.

The next step was to calculate the Dis-Chem Benefit CLP points issued during the year using the financial data retrieved, as the value of the Dis-Chem Benefit CLP points earned was a value after the redemption rate was applied. The calculation of the value of Dis-Chem Benefit CLP points issued each year from 2018 to 2022 was completed in **Step 2** (Section 3.3.2).

The final step in quantifying the potential tax revenue from CLP points issued was to apply the proposed WHT rate (as discussed in Section 2.6) to the calculated Dis-Chem Benefit CLP points issued. The quantification of the potential tax revenue that the *fiscus* could have generated from Dis-Chem Benefit CLP points issued each year from 2018 to 2022 was completed in **Step 3** (Section 3.4.1). A summary of the results of this process described in Figure 9 above may be found in Table 11 below.

Table 11: Summary of findings for this study

Financial year-end	2018	2019	2020	2021	2022
CLP points earned in AFS [A]	R149 588 000	R144 918 000	R167 912 000	R264 096 000	R143 782 000
Redemption rate in AFS [B]	90 percent	90 percent	90 percent	90 percent	100 percent
Calculated CLP points issued [A / B = C]	R166 208 000	R161 020 000	R186 568 000	R293 440 000	R143 782 000
WHT rate [D]	25 percent	25 percent	25 percent	25 percent	25 percent
Potential tax revenue [C X D = E]	R41 552 000	R40 255 000	R46 642 000	R73 360 000	R35 946 000

Source: Own design (refer to the following tables for the information gathered: Table 7 for “A” Section 3.3.1, Table 8 for “B” Section 3.3.1, Table 9 for “C” Section 3.3.2, Table 10 for “E” Section 3.4.1)

Table 11 above indicates a summary of the results of the analysis of the financial data and applying the proposed WHT rate to the Dis-Chem Benefit CLP points issued to determine the value of tax revenue that could have been generated for the *fiscus*. The **cumulative Dis-Chem Benefit CLP points issued as calculated from 2018 to 2022 was R951 018 000** (Section 3.3.2 and above in Table 11 shown as “C”). The **cumulative tax revenue that the *fiscus* could have generated from the Dis-Chem Benefit CLP from 2018 to 2022 was R237 755 000** (Section 3.4.1 and above in Table 11 shown as “E”).

The cumulative tax revenue that could have been generated from the Dis-Chem Benefit CLP alone from 2018 to 2022 of at least R237 million would account for 0,59 percent of the R40 billion needed to stabilise the public debt and return public finances to a

sustainable level (raised and discussed by National Treasury (2021b:39)). However, the R237 million potential tax collection may be 7% lower if it is imposed onto lower income earners because the South African progressive income tax rates range between 18% and 45% (as indicated in Table 8 Section 2.6). Conversely, it may also be greater because people with higher incomes would have to contribute an additional 20% tax on the CLP points that were issued. This is consistent with Cromhout (2021:12), when indicating that CLPs are used more by higher income-earners and therefore fewer refunds of WHT would be paid than additional taxes levied over the WHT rate of 25 percent. In addition, the analysis by Cromhout (2021:8) concluded that customers belong to at least 5 CLPs at any given time. Therefore, it is submitted that the *fiscus* may rely on this source of revenue, as wealthier taxpayers would tend to pay more than the 25 percent tax, due to being in higher tax brackets and belonging to multiple CLPs.

Considering the aforementioned findings, it is essential to assess whether the potential tax revenue received by SARS from levying a tax on CLP rewards, through the use of a WHT mechanism, justifies the costs and disadvantages of implementing such a system. Consequently, putting into practice the tax on CLP rewards and the suggested prepayment of taxes in the form of a WHT mechanism, the following advantages would arise:

- The WHT mechanism ensures that all customers pay the tax, regardless of the fact that they are registered as a taxpayer or not (Odendaal & Pidduck, 2014:13).
- The WHT mechanism reduces the risk of a perceived additional tax burden by customers, as they would receive the CLP reward after the deduction of the WHT and therefore would only be liable to pay additional tax upon submission of their tax returns (Pidduck & Odendaal, 2013:1528).
- The WHT mechanism enables SARS to tax CLP rewards using the same or comparable resources that it currently uses to manage other WHT and therefore reduces the administrative burden for SARS (Pidduck & Odendaal, 2013:1528).
- The administrative and cash flow costs of the WHT mechanism would only apply to companies that choose to operate a CLP; and the proportion of companies affected would be negligible in contrast to the total number of customers (for example there are 6,8 million Dis-Chem Benefit CLP members) (Odendaal & Pidduck, 2014:14).

- This would assist in eliminating the disparity in the taxation of CLPs, since providers are able to deduct expenditure incurred in respect of CLPs, whereas the CLP rewards are currently not taxed in the hands of the recipient.
- The South African tax base would be increased with an additional tax on CLP rewards and may assist in reducing the budget deficit.

4.3. LIMITATIONS OF THIS STUDY

It was described in Chapter 1 that the purpose of this study was not to address and quantify the tax revenues for all CLP providers, as CLPs are not homogenous due to their various differentiating characteristics. The aim of the results of this study should therefore be considered in the context of South Africa and more specifically the Dis-Chem Benefit CLP. Nevertheless, the findings may be indicative of the larger CLP landscape, but may prove to be of limited use to other jurisdictions or other CLPs.

An additional, a limitation is that this study focused only on the normal tax implications of CLP rewards and therefore other types of taxes such as Value Added Taxes were not considered. Lastly, this study focused on the quantification of the potential tax revenue that could be generated for the *fiscus*. The interpretation and response of a potential tax on CLP rewards by CLP providers and moreover the customers is required to be considered in future research.

4.4. FUTURE AREAS OF RESEARCH

The following areas have been identified as areas for future research:

- A study on the forecasted amount of tax revenue that may be generated by the *fiscus* should a WHT on CLP rewards earned by customers be introduced.
- A study on customer and CLP providers' responses to the imposition of a tax on CLP rewards.
- A study with the view to determining extra disclosures required in the financial statements of all CLP providers, to ensure compliance for CLPs. This might be beneficial to quantify potential tax revenues more easily and ensure consistent disclosures in terms of IFRS for CLP providers.

4.5. CONCLUDING REMARKS

The South African Minister of Finance's Medium Term Budget Policy Statement from 2021 made clear that the government's spending far outpaced its receipts and that there is a tax collection shortfall of R40 billion (National Treasury, 2021b:39). Additionally, the tax system in South Africa has not evolved along with the manner that customers and companies conduct business in the context of CLPs, in order to address this shortfall and resultant *fiscal* leakages. It has been established that CLP providers are permitted to deduct the expenses incurred for providing CLP rewards to customers, but the CLP rewards earned by customers are not being recorded as income in their tax returns.

The suggestion proposed by Pidduck *et al.* (2019) to introduce a WHT on CLP rewards received by customers was applied in order to quantify the potential tax revenues from just one CLP in South Africa. The findings of this study revealed that at least R237 million in potential tax revenues could have been collected from just one CLP in South Africa from 2018 to 2022 (Dis-Chem Benefit CLP) should a withholding tax of 25 percent have been employed as proposed.

In order to reduce the risks associated with establishing this tax on CLP rewards, it is emphasised that even while the suggested model applies a progressive tax on CLP rewards, it should consider using a WHT of 25 percent in the form of a prepayment of normal taxes. In this manner, SARS could use existing systems to expand the tax base in South Africa, while maintaining its progressive tax system and without incurring the high expenses associated with developing a new method of collection.

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