An evaluation of interest deduction limitations to counter base erosion in South Africa

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Research focus

What describes the funding structures of different types of entities, in particular foreign owned entities and domestically owned entities, and how is it related to other characteristics of the firms?
Approach & Methodology

- Three categories
- Only ITR14 observations
- Debt-to-equity and interest-to-EBITDA
- Remove anomalies and exceptional categories of items
Debt-to-equity findings

- 10th percentile:
  - Foreign Held Companies: 0.16
  - South African Branches of Foreign Companies: 0.21
  - Entities other than Foreign Held Companies or South African Branches: 0.19

- 25th percentile:
  - Foreign Held Companies: 0.4
  - South African Branches of Foreign Companies: 0.6
  - Entities other than Foreign Held Companies or South African Branches: 0.55

- 50th percentile:
  - Foreign Held Companies: 1.09
  - South African Branches of Foreign Companies: 1.8
  - Entities other than Foreign Held Companies or South African Branches: 1.6

- 75th percentile:
  - Foreign Held Companies: 3.24
  - South African Branches of Foreign Companies: 5.02
  - Entities other than Foreign Held Companies or South African Branches: 6.21
Net interest-to-EBITDA

Percentage distribution across different percentiles:
- 50th Percentile: 9.3%, 10.4%, 11.2%
- 75th Percentile: 33.0%, 29.0%, 31.0%
- 81st Percentile: 43.0%, 41.0%, 41.0%
- 93rd Percentile: 98.0%, 93.0%

Legend:
- Blue: Foreign Held Companies
- Red: South African Branches of Foreign Companies
- Green: Entities other than Foreign Held Companies or South African Branches
Net interest-to-EBITDA ratio findings: 75th percentile and up
Entities with turnover between R1m and R20m
Industry representation in 75th percentile and upwards

![Bar chart showing industry representation](image)
Change in investor country in 75th percentile and upwards

- South Africa: 4.21%
- Switzerland: 4.21%
- Mauritius: 3.05%
- British Virgin Islands: 3.12%
- Cyprus: 1.16%
- Guernsey: 0.65%
- Namibia: 0.73%
- Guinea Bissau: 1.6%
- Canada: 1.6%
Limitations and further research

- Foreign held indicators availability
- More in-depth industry analysis in 75th percentile and upwards
- Panel data - accuracy and detail
  - Tax EBITDA vs accounting EBITDA