

MES AND SECTION 18A TAX BENEFIT

INTRODUCTION

The South African government has recognised that specific organisations depend on the public's generosity, and encouraging that generosity has provided a tax deduction to individual donations made by taxpayers.

MES IS A PUBLIC BENEFIT ORGANISATION WITH A SECTION 18A STATUS

MES is a registered public benefit organisation (PBO) with SARS and thus has tax exemption status. MES is, therefore, exempt from paying certain taxes, including income tax, transfer duties and skills development levies.

In addition, MES has Section 18A status, which means a donor gets a tax deductibility benefit and certificate. A donor making a bona fide donation in cash or in-kind to MES is thus entitled to a deduction from their taxable income if the donation meets the requirements of the Income Tax Act.

The donation amount that may qualify for a tax deduction is limited to 10% of the donor's taxable income per annum.

The eligibility to issue Section 18A receipts is restricted to specific public benefit activities defined by the relevant tax law schedule. Most of MES' activities comply, except for the spiritual enrichment activities. Thus, donations towards this activity will not qualify for the Section 18A tax deductibility.

REQUIREMENTS OF A VALID SECTION 18A RECEIPT OF A CERTIFICATE

MES will issue either a Section 18A receipt or certificate on request for the donor's income tax return purposes. For this Section 18A receipt to be accepted by SARS, it must include the following details:

Recipient information:

- The Section 18A reference number of MES issued by SARS.
- The date of receipt of the donation.
- The name and address of MES to which inquiries may be directed.
- A unique receipt number.
- The donation amount or the nature of the donation if not in cash.
- Certification that the receipt is issued for Section 18A and that the donation will be used exclusively for the activities approved for Section 18A.

Donor information:

- The name and address of the donor.
- Donor nature of the person (natural person, company, Trust, etc.).
- Donor identification type and country of issue (in case of a natural person).
- Identification or registration number of the donor.
- Income tax reference number of the donor (if available).
- Contact number of the donor.
- Electronic mail (email) address of the donor.
- Trading name of the donor (if different from the registered name).

The Section 18A receipt will be issued only on receipt, and the donor must ensure they claim the Section 18A tax benefit in the tax year corresponding with that of the donor.

NON-QUALIFYING DONATIONS

According to SARS directives, the following donations do not qualify for a Section 18A tax deduction, and subsequently, MES cannot issue a Section 18A receipt for:

- Donation of services rendered, such as a professional person providing a skill free of charge.
- An amount paid to attend a fundraising event such as a dinner or charity golf day.
- Memorabilia and other assets donated to be auctioned to raise funds.
- The amount paid for the successful bid of goods auctioned to raise funds.
- Amounts paid for raffle or lottery tickets.
- Amounts paid for school fees, school entrance fees or compulsory school levies.
- The value of free rent, water and electricity provided by a lessor to the lessee.
- Payments of debt owed by an organisation are approved under Section 18A. An example would be the cost of repairs to a vehicle paid to the service station on behalf of the PBO and not paid directly to the PBO.
- Prizes and sponsorships are donated for a fundraising event such as a charity golf day.
- Tithes and offerings to churches or other religious organisations for religious activities.
- Membership fees.

We advise our donors to consult with their auditors or accountants, as getting a standard expense deduction on some of these non-qualifying donations may be possible.

GOODS-IN-KIND DONATIONS

As mentioned above, any tangible goods such as food items, clothing, equipment or blankets qualify for a Section 18A receipt if made in a bona fide fashion and towards public benefit activities.

The responsibility to substantiate the value of the goods donated lies with the donor. For this reason, the Section 18A receipt issued by MES stipulates an estimated value. SARS may require the donor to provide additional documentation, such as a sales invoice or valuation certificate, when making the Section 18A claim in their tax return.

Again, please confirm with your accountant that goods bought by the company and delivered to MES should be allocated to regular company expenses or donations. Companies cannot claim the cost twice.

VAT ON DONATIONS

If the donor is a VAT vendor, it should be noted that, per definition, donations are deemed VAT exempt. Thus, if the donor wants to issue a pro forma invoice to substantiate the value in its books, it should not include any VAT on the invoice.

CLOSING

We trust this information is helpful. Please contact the finance department at finance@mes.org.za if you require any additional information.



B-BBEE, YOUR COMPANY AND MES

INTRODUCTION

As MES, we believe South Africa's broad-based black economic empowerment (B-BBEE) strategy can be beneficial in addressing some of the social inequality and injustices. For B-BBEE initiatives to be broad-based, the role of non-profit community-based organisations should be more active and engaging in developing a more sustainable and socially just society.

MES offers companies valuable and meaningful solutions when they partner with us. Whether companies seek to do more with their corporate social investment budget or benefit more from what is spent on skills or enterprise development, procurement and supplier development, MES provides reliable and valuable solutions.

MES' solutions can provide companies with much-needed B-BBEE points. It will enable them to build a favourable B-BBEE scorecard, plan and access markets and tender opportunities through an improved scorecard.

A Section 18A receipt from MES can be provided as proof that a company made a bona fide donation. Similarly, a letter of receipt for those contributions that do not qualify for a Section 18A receipt can be provided.

BY PARTNERING WITH MES, COMPANIES CAN IMPROVE THEIR B-BBEE SCORECARD ON THE FOLLOWING:

Socio-economic development (SED) – Receive maximum points for contributing to this element. We have a minimum of 75% black qualifying South African beneficiaries and will earn you full recognition for your contribution. We are a registered NPO and qualifying SED recipient.

Enterprise development (ED) – We have several black-owned start-ups and existing enterprises that can benefit from your investment to contribute to their story, sustainability and financial and operational independence. MES also qualifies as a black-owned Level 1 enterprise, thus affording ED points. Investing in our black-owned beneficial enterprises could earn your company maximum points on the enterprise development scorecard.

Procurement – MES is a level 1 B-BBEE qualifying small enterprise with a 135% procurement recognition, thus adding value to preferential procurement scores. Companies that have used any of the services MES offers can allocate their subsequent spending towards MES to the preferential procurement indicator under enterprise and supplier development.

Supplier development – MES has several value-adding black-owned supplier enterprises that can benefit from investment to contribute to their development, sustainability, and financial and operational independence. Investing in our black-owned beneficial enterprises, and utilising them as suppliers, could earn your company maximum points on the supplier development scorecard.

Skills development – Companies are expected to allocate skills development expenditure to learning programmes for black unemployed or employed people. MES serves hundreds of unemployed black South African individuals who can benefit from skills development, either in company grants or bursaries or their participation in company-funded learning programmes. These learning programmes should be executed in line with each specific industry sector.

Ownership – MES offers black ownership options to companies looking for shared ownership options through MES as a level 1 B-BBEE contributor NPC or through our Khula Trust. The Trust is deemed a black entity through MES (and thus our clients) as its sole beneficiary. The MES Khula Sustainability Trust is an initiative that is not a handout but an investment partnership with private enterprises to ensure the organisation's long-term sustainability to the benefit of our clients. The Trust has already raised some funds and is looking for investment opportunities in listed and unlisted shares.

As MES, we can be a valuable resource for companies that want to see social change in their communities. B-BBEE compliance is a consideration as an added benefit and need not be the defining premise of a partnership with MES. We, therefore, invite interested companies to partner and engage with us on social transformation and, in so doing, to "change the heart of the city!"

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