



Tax & Legal – News Alert



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International Tax Considerations of the Transition to ZARONIA as the Key Reference Rate

This publication is the second in our series of tax alerts on the transition from the Johannesburg Interbank Average Rate (**JIBAR**) to the South African Rand Overnight Index Average Rate (**ZARONIA**). Our first article introduced ZARONIA and highlighted key income tax considerations. In this article, we focus on international tax implications that taxpayers should be aware of during this transition.

International Tax

Historically, many financial instruments referenced JIBAR, which was widely accepted as a market rate. JIBAR served as a trusted benchmark for setting interest rates in financial arrangements between connected persons in South Africa, helping ensure compliance with transfer pricing and tax regulations by providing a market-based reference point. For example, an arm's length interest rate on intra-group loans was typically based on JIBAR plus a margin.

The Accounting Standards Board's practical expedient requires that any change in reference rate be economically equivalent to the previous basis and commercially reflective of market conditions. Accordingly, replacing JIBAR with ZARONIA should also result in an arm's length rate.

The transition from JIBAR to ZARONIA follows market-driven practices and should maintain economic equivalence between parties—meaning no unintended tax benefit should arise under the South African transfer pricing legislation in section 31 of the Income Tax Act. This approach aligns with His Majesty's Revenue and Customs stance during the LIBOR transition to the Secured Overnight Financing Rate (**SOFR**), where guidance confirmed that arm's length parties could reasonably amend contracts to reflect benchmark reforms without triggering a reassessment of original terms.

Similarly, it is reasonable to expect that the South African Revenue Service (**SARS**) should accept that revisions to contracts referencing JIBAR, made solely to accommodate the rate reform, are consistent with arm's length principles. However, Multinational Enterprise (**MNE**) groups must update documentation to reflect the withdrawal of JIBAR and ensure that amendments to financial instruments between connected persons remain compliant.

Conclusion

The shift from JIBAR to ZARONIA affects all financial instruments referencing JIBAR. Taxpayers,

including MNEs, should ensure contracts are updated appropriately and that supporting documentation can withstand scrutiny from SARS.

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