

VAT 404

Value-Added Tax

Guide for Vendors

10 IMPORTANT PRINCIPLES

1. All prices charged, advertised or quoted by a vendor must include VAT at the applicable rate. (Presently 14% for standard-rated supplies).
2. Vendors collect VAT on behalf of the State – please make sure that you pay it over on time, otherwise penalties and interest will be charged.
3. VAT charged on supplies made (output tax) less VAT paid to your suppliers (input tax) = the amount of VAT payable/refundable.
4. You need a valid tax invoice with your VAT number indicated on it as proof of any input tax deductions which you want to make. You must also keep records of all your tax invoices and other records of transactions for at least five (5) years.
5. Goods exported to clients in an export country are charged with VAT at 0%. However, if delivery takes place in RSA, you must charge VAT at 14% to your client. If your client is a vendor, the VAT charged may be deducted as input tax. If your client is not a vendor, and the goods are subsequently removed from the country, a claim for a refund of the VAT may be made at the offices of the VAT Refund Administrator (the VRA). The VRA is only present at certain points of exit from the Republic.
6. You may not register for VAT or deduct any input tax on goods or services acquired to make exempt supplies, for private use or other non-taxable purposes. Also, as a general rule, input tax may not be deducted where the expense incurred is for the acquisition of a motor car or entertainment, even if used for making taxable supplies.
7. You are required to advise the South African Revenue Service (SARS) within 21 days of any changes in your registered particulars, including any change in your authorised representative, business address, banking details, trading name, or if you cease trading.
8. If you have underpaid VAT as a result of a mistake, report it to your SARS branch office as soon as possible, rather than leaving it for the SARS auditors to detect.
9. You can pay your VAT by using various electronic methods, including eFiling, internet banking, debit order and electronic funds transfer (EFT). You may also pay at any of the four major banks.
10. Report fraudulent activities to SARS by calling the Fraud and Anti-Corruption Hotline on 0800 00 28 70. You may report an incident anonymously if you wish.

FOREWORD

The VAT 404 is a basic guide where technical and legal terminology has been avoided wherever possible. Although fairly comprehensive, the guide does not deal with all the legal detail associated with VAT and is not intended for legal reference.

All references to “the VAT Act” or “the Act” are to the Value-Added Tax Act, 1991 unless the context otherwise indicates. The terms “Republic”, “South Africa” or the abbreviation “RSA”, are used interchangeably in this document as a reference to the sovereign territory of the Republic of South Africa, as set out in the definition of “Republic” in section 1 of the VAT Act. You will also find a number of specific terms used throughout the guide which are defined in the Value-Added Tax Act, 1991 and listed in **Chapter 19** in a simplified form for easy reference.

The information in this guide is based on the VAT legislation (as amended) as at the time of publishing and includes the amendments contained in the [Taxation Laws Amendment Act 24 of 2011](#) which was promulgated on 10 January 2012 (as per GG 34927).

Below is a brief synopsis of some of the most important changes affecting the administration of VAT since the previous issue of this Guide:

1. **VAT 201 modernisation** – Further modernisation changes were made during 2011 such as the additional functionality that enable vendors to request the status of a VAT refund, information on payments made and to empower vendors to manage their VAT accounts more effectively. It is expected that more modernisation changes will be implemented in phases during 2012. Vendors are therefore advised to check the [SARS website](#) for the latest information, as well as the publication called [VAT Connect](#) which will be sent directly to vendors.
2. **Tax Administration Bill (TAB)** – The TAB has been passed by Parliament and it is expected to become an Act of Parliament during the course of 2012. The TAB seeks to provide a single body of law that outlines common procedures, rights and remedies. Once in effect the TAB will have a major impact on the administration of all taxes in general. The effect from a VAT perspective is that a number of administrative type provisions which are currently in the VAT Act will be deleted. The TAB is available on the [SARS website](#) under “Draft Bills” on the [Legal and Policy](#) page.
3. **Exemption for imported services** – The VAT Act currently provides for a minimum threshold exemption of R100 in respect of books, newspapers and journals imported by post. A similar exemption of R100 was introduced for imported services (e.g. electronic books) for imports into South Africa on or after 10 January 2012.
4. **Conversion and renewal of mining rights** – The law was clarified to make it clear that only the conversion of so-called old order mining rights held by a person into “new order” mining rights as required by the Mineral and Petroleum Resources Development Act 28 of 2002 (the MPRD Act) qualify for the zero rate of VAT. The zero-rating does not apply to the transfer of mineral rights to third parties outside of the conversion or renewal process. The zero-rating which applied for mineral rights renewals has also been deleted. The zero-rating merely protects existing mineral rights holders from being subject to VAT on the compulsory conversion of old rights to new rights as prescribed in terms of the MPRD Act.
5. **Redemption of manufacturer discount tokens, vouchers and stamps (coupons)** – Manufacturers often issue coupons which may be redeemed by customers in the form of a discount allowed on the retail price of the manufacturer’s products at certain retail outlets. A manufacturer that reimburses a retailer for a discount allowed to a customer, may deduct input tax equal to the tax fraction of the amount reimbursed. The law has now been amended to clarify that input tax in such cases may only be deducted by the manufacturer when the supply by the retailer to which the coupon relates, was subject to VAT at the standard rate.

6. **Temporary letting of dwellings by property developers** – Section 18B was inserted to provide some temporary relief for the change in use adjustment required by a vendor when newly developed units are temporarily let as residences (exempt supplies) whilst they are also being marketed for sale (taxable supplies). The relief is in the form of a suspension of the liability to declare output tax on the change in use adjustment for a maximum period of 36 months. It is intended to apply in cases where developers experience difficulties in selling their newly developed properties due to the depressed property market where they have found it necessary to temporarily let the properties as dwellings until the property market improves. The relief will expire on the earlier of 1 January 2015 or the date of any permanent change in intention or use of the properties from taxable to non-taxable purposes.
7. **Delinking VAT from transfer duty** – The limitation of the notional input tax credit to the transfer duty payable in respect of the purchase of fixed property from a non-vendor has been removed. The input tax which may be deducted on the acquisition of fixed property from a non-vendor on or after 10 January 2012 is now subject to largely the same rules applicable for the deduction of notional input tax in respect of other second-hand goods. This includes limiting the input tax to the extent that there has been actual payment of the purchase price of the property. The amendment is not retrospective and does not have the effect of allowing the input tax previously denied to be deducted on properties held which were acquired before 10 January 2012.
8. **Adjustments for unpaid debt on inter-company loan accounts** – Vendors who are registered on the invoice basis are required to pay back input tax previously deducted which relate to credit purchases which have not been paid within a 12-month period. Relief from this adjustment is now available to members of a group of companies under certain conditions.
9. **Intra-warehouse transfers** – The valuation of goods entered for home consumption should reflect the value of the goods in terms of any intra-warehouse sales that occurred before the goods were entered for home consumption instead of their original value on entry into the warehouse.

The following guides have also been issued and may be referred to for more information relating to the specific VAT topics:

- AS-VAT-08 - Guide for Registration of VAT Vendors
- Trade Classification Guide (VAT 403)
- Guide for Fixed Property and Construction (VAT 409)
- Guide for Accommodation, Catering and Entertainment (VAT 411)
- Share Block Schemes (VAT 412)
- Deceased Estates (VAT 413)
- Guide for Associations not for Gain and Welfare Organisations (VAT 414)
- Diesel Refund Guide (VAT 415)
- AS-VAT-10 - Quick Reference Guide (Small Vendors) (VAT 417)
- AS-VAT-02 - Quick Reference Guide (Diplomatic Refunds)
- Guide for Municipalities (VAT 419)
- Guide for Motor Dealers (VAT 420)
- VAT treatment of entities affiliated to FIFA Part 2 entities
- VAT treatment of entities affiliated to FIFA Part 3 entities

The information in this guide is issued for guidance only and does not constitute a binding general ruling as contemplated in section 76P of the Income Tax Act, No. 58 of 1962 and sections 41A and 41B of the VAT Act unless otherwise indicated.

All previous editions of the Guide for Vendors (VAT 404) are withdrawn with effect from 12 March 2012.

Should there be any aspects relating to VAT which are not clear or not dealt with in this guide, or should you require further information or a specific ruling on a legal issue, you may:

- contact your local South African Revenue Service (SARS) branch;
- visit the SARS website at www.sars.gov.za;
- contact your own tax advisors;
- if calling locally, contact the SARS National Call Centre on 0800 00 7277; or
- if calling from abroad, contact the SARS National Call Centre on +27 11 602 2093.

Comments and/or suggestions regarding this guide may be sent to the following e-mail address:
policycomments@sars.gov.za.

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CHAPTER 1

INTRODUCTION

1.1 WHAT IS VAT?

VAT is an abbreviation for the term value-added tax. It is an indirect tax based on consumption in the economy. Revenue is raised for the government by requiring certain traders (vendors) to register and to charge VAT on taxable supplies of goods or services. Vendors act as the agent of the government in collecting the VAT charged on taxable transactions. SARS is a government agency which administers the VAT Act and ensures that the tax is collected and that the tax law is properly enforced.

Many countries apply a form of indirect or consumption tax like VAT, and although these tax systems might be known by different names, for example, GST (Goods and Services Tax), the characteristics of the tax are normally quite similar. The generally accepted **essential characteristics** of a VAT-type tax are as follows:

- The tax applies generally to **transactions** related to **goods and services**.
- It is **proportional to the price** charged for the goods and services.
- It is **charged at each stage** of the production and distribution process.
- **The taxable person (vendor) may deduct the tax paid during the preceding stages** (that is, the burden of the tax is on the final consumer).

VAT is only charged on **taxable supplies** made by a vendor. Taxable supplies include supplies for which VAT is charged at **either the standard rate or zero rate**, but does not include:

- salaries and wages;
- hobbies or any private recreational pursuits (not conducted in the form of a business);
- occasional private sale of personal or domestic items;
- exempt supplies. (*Refer to Chapter 6*).

1.2 HOW DOES VAT WORK?

The South African VAT is destination based, which means that only the consumption of goods and services in South Africa is taxed.¹ VAT is therefore paid on the **supply of goods or services in South Africa** as well as on the **importation of goods into South Africa**. VAT is currently levied at the **standard rate of 14%** on most supplies and importations, but there is a limited range of goods and services which are either exempt, or which are subject to tax at the **zero rate** (for example, exports are taxed at 0%). The **importation of services** is only subject to VAT where the importer is not a vendor, or where the services are imported for private, exempt or other non-taxable purposes. Certain imports of goods or services are exempt from VAT. *Refer to Chapters 5 and 10 for more details.*

Persons who make **taxable supplies in excess of R1 million** in any consecutive 12-month period are **liable for compulsory VAT registration**, but a person may also **choose to register voluntarily** provided that the **minimum threshold of R50 000**² has been exceeded in the past 12-month period. Persons who are liable to register, and those who have registered voluntarily, are referred to as vendors. *Refer to Chapter 2 for more details.*

¹ This is known as the invoice-based credit method of the consumption-type VAT.

² The minimum threshold is R60 000 in the case of persons that supply "commercial accommodation". Before 1 March 2010, the entry level threshold for voluntary VAT registration was R20 000.

Vendors have to perform certain duties and take on certain responsibilities if they are registered or liable to register for VAT. For example, vendors are required to ensure that VAT is collected on taxable transactions, that they submit returns and payments on time, that they issue tax invoices where required, that they include VAT in all prices advertised or quoted etc. *Refer to **Chapter 16** for more details.*

The mechanics of the VAT system are based on a **subtractive or credit input method** which **allows the vendor to deduct the tax incurred on enterprise inputs (input tax) from the tax collected on the supplies made by the enterprise (output tax)**. There are, however, some expenses upon which input tax is specifically denied, such as the acquisition of motor cars and entertainment. *Refer to **Chapter 7** for more details.*

The vendor reports to SARS at the end of every tax period on a VAT 201 return, where the **input tax incurred for the tax period is offset against the output tax collected for the tax period and the balance is paid to SARS** (normally by no later than the 25th day after the end of the tax period concerned). The VAT collected by vendors is usually paid over to SARS every two months, but where the value of taxable supplies in a 12 month periods exceeds R30 million, the vendor must account for VAT by paying and submitting returns electronically on a monthly basis. Certain farming enterprises are allowed to pay VAT on a bi-annual basis and small businesses with taxable supplies less than R1.5 million in any consecutive 12-month period may pay their VAT every four months. *Refer to **Chapter 3** for more details.*

Late payments of VAT attract a penalty of 10% of the outstanding tax. Interest is also charged at the prescribed rate on any late payments made after the month in which the payment for the tax period concerned was due as well as any balance of taxes outstanding for past tax periods. *Refer to **Chapters 7 and 8** for more details.*

It sometimes occurs that the result of the calculation for the tax period is a **refund**, instead of an amount payable to SARS. This happens, for example, where the vendor has incurred more VAT on expenses than has been collected on any taxable supplies made during the tax period, or where the vendor has mainly zero-rated supplies (for example, an exporter, or a business which sells only fresh fruit and vegetables). However, most vendors will not normally be in a refund situation, and should be paying VAT to SARS at the end of each tax period. Refunds must be paid by SARS within 21 working days of receiving the correctly completed refund return, otherwise interest at the prescribed rate is payable by SARS to the vendor. However, interest is not paid if certain conditions are not met. For example, no interest is paid where the vendor has outstanding taxes or returns for past tax periods or where SARS is prevented from gaining access to the vendor's records to verify the refundable amount.

The fact that there are often refunds under the VAT system and that it is self-assessed, makes it tempting for vendors to overstate input tax or to underdeclare output tax. SARS therefore places great importance on identifying high risk cases, conducting regular compliance visits and promoting a high level of visibility of auditors in the field. *Refer to **Chapters 8 and 17** for more details.*

As VAT is an invoice-based tax, **vendors are generally required to account for VAT on the invoice (accrual) basis**, but the payments (cash) basis is allowed in some cases. For example, natural persons with a taxable annual taxable turnover of under R2 500 000 as well as public authorities and municipalities are allowed to account for their VAT on the payments basis. Other legal entities such as companies and trusts do not qualify for the payments basis of accounting. *Refer to **Chapters 3 and 4** for more details.*

Tax invoices for supplies made, bills of entry for goods imported or exported and the general maintenance of proper accounting records and documents are all very important aspects of how the whole VAT system operates. These documents form an audit trail which SARS uses to verify that the vendor has complied with the law. A tax invoice or bill of entry also serves as the documentary evidence of any VAT deducted by the vendor as input tax. A tax invoice is only valid if it contains certain details and is issued by the supplier within 21 days of making a taxable supply, regardless of whether the recipient has requested this or not. A full tax invoice must be issued where the consideration for the supply exceeds R3 000. *Refer to **Chapters 11, 12, 13 and 15** for more details.*

Example 1 – Mechanism of the VAT system

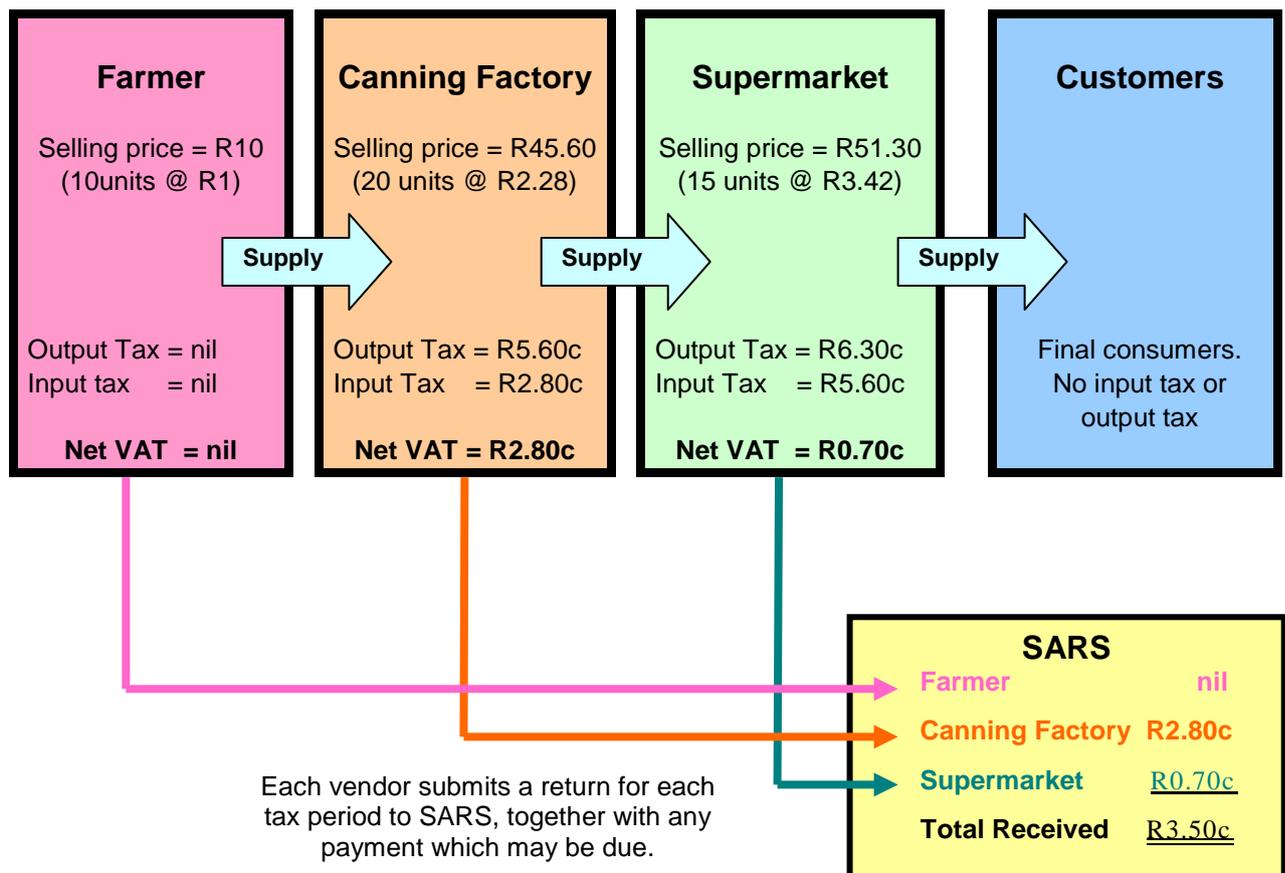
A VAT registered farmer sells 10 pineapples to a VAT registered canning factory for R1 each. No VAT is charged by the farmer to the factory as the supply of fresh fruit is zero-rated. For purposes of this example it is assumed that the farmer did not have any input tax to deduct, as all farming supplies purchased were subject to VAT at the zero rate. (Refer to **Chapter 9**.)

The canning factory also buys canning metal from another vendor for R22.80 (including 14% VAT). It manufactures 20 cans of pineapple pieces and sells them to a supermarket for R2.28 each (including 14% VAT). The selling price of each can of pineapples includes 28c VAT. The factory must therefore pay output tax of 28c on each can sold, which in turn, will be deducted as input tax by the supermarket.

The supermarket sells 15 of the 20 cans to its customers for R3.42 each (inclusive of 42c VAT). The supermarket must declare output tax of 42c on each can of pineapple pieces sold. Since the supermarket's customers are the final consumers and are not registered for VAT, there is no input tax deducted on the 42c VAT charged.

Note that for the sake of simplicity, it is assumed that the farmer has no other input tax to deduct.

The effect in this example is illustrated in the diagram below.



CHAPTER 2

REGISTERING YOUR BUSINESS

2.1 WHEN DO I BECOME LIABLE TO REGISTER FOR VAT?

You will be liable to register for VAT if the income earned from selling goods or fees earned from services supplied is more than R1 million in any consecutive period of 12 months, or is reasonably expected to exceed that amount. If liable, you must complete a form VAT 101 (Application for Registration) and submit it to your local SARS office not later than 21 days from the date of liability. This type of registration is referred to as a **compulsory registration**.³

A person who is registered, or who is obliged to register is referred to as a “vendor”. (Note: it is the **legal person** and not the trading name of a business which is required to register. Refer to **paragraph 2.7** for more details.)

The term **person** includes the following:

- Individuals.
- Partnerships and bodies of persons.
- Private and public companies, shareblock companies and close corporations.
- Public authorities⁴ and municipalities (previously called local authorities).
- Associations not for gain such as clubs and welfare organisations.
- Insolvent and deceased estates.
- Trusts.
- Foreign donor funded projects.

The following are circumstances where you will **not** be required or allowed to register:

- Where it is unlikely that your sales (taxable supplies) will exceed R1 million.
- If only exempt supplies are made (refer to **Chapter 6** for examples).
- Employees who earn a salary or wage from their employers (excluding independent contractors).
- Where the supplies are made from outside RSA (for example, a foreign branch located in another tax jurisdiction).
- Hobbies or any private recreational pursuits not conducted in the form of a business.
- Private occasional transactions. For example, the sale of domestic/household goods, personal effects or a private motor vehicle.

If your sales or fees earned from making taxable supplies are more than R50 000,⁵ but do not exceed R1 million, you can register for VAT voluntarily if you meet certain conditions. This type of registration is referred to as a **voluntary registration**.⁶ Refer to **paragraph 2.5**.

³ The R1 million compulsory VAT registration threshold applies to the total value of taxable supplies (turnover) and not the net income (profit) that your business has made for the period.

⁴ Public authorities are generally not registered as vendors. Refer to **paragraph 6.8** for more information on this topic.

⁵ Note that the threshold for voluntary registration where the supplies consist of “commercial accommodation” is R60 000 and not R50 000.

⁶ Certain types of vendors do not have to meet the R50 000 minimum threshold of taxable supplies for voluntary registration, for example, certain share block companies, welfare organisations, foreign donor funded projects and municipalities.

2.2 WHERE MUST I REGISTER?

The VAT 101 application for registration must be submitted **in person** at the SARS branch office nearest to the place where your business is situated or carried on. This means that in the case of a sole proprietor the individual concerned must submit the application in person, or in the case of any other person such as a partnership, company or trust, the relevant representative vendor must submit the application in person. Alternatively, a registered tax practitioner may appear in person on behalf of the applicant. Where you have several enterprises/branches/divisions which will operate under one VAT registration number, you should register in the area where the main enterprise/branch/division is located.

2.3 WHAT DOCUMENTS MUST I SUBMIT WITH MY APPLICATION?

2.3.1 General requirements

It is very important that you submit the correct documents with your application to register; otherwise there may be a delay in obtaining your VAT registration number. Refer to [AS-VAT-08 - Guide for Completion of VAT Registration Application Forms](#) on the [SARS website](#) for a comprehensive list of documents that must be submitted.

SARS will not accept any faxed or photocopied applications for registration. Please also make sure that where a certified copy of a specific document is required (for example an ID document), that the actual certified true copy of the original is submitted with the registration application, and not merely a photocopy thereof. Posted applications will only be processed if applicants are geographically far from the branch office or due to any form of disability and the applicant cannot physically present the application.

Once you have been registered, you will receive a VAT registration certificate (VAT 103). You can also check if your registration has been processed by entering your details under “VAT vendor search” on the [SARS website](#). [Go to ⇒ www.sars.gov.za ⇒ **eFiling** ⇒ select **VAT Vendor Search** in the drop-down box on the left hand side of the screen].

SARS employees are not allowed to advise you verbally of your VAT registration number. If you have not yet received your certificate and require some proof of registration, you can request the local SARS office to give you a letter confirming this fact (VAT 103i form). Allow at least 21 working days for your documents to be processed. The certificate will be posted to the postal address given on your registration application and should be received within two weeks of your application being processed.

2.3.2 Foreign donor funded projects

The definition of “person” in section 1 of the VAT Act includes a “foreign donor funded project”. A foreign donor funded project means a project established as a result of an international donor funding agreement to supply goods or services to beneficiaries, to which the South African government is a party. These international agreements are referred to as Official Development Agreements (ODAs) and normally provide that the funds donated should only be used for specific, mutually agreed upon programmes and activities, and cannot be used for any taxes imposed under South African Law.

Where the ODA is one which is binding on the Republic in terms of section 231(3) of the Constitution and also contains a requirement that the funds may not be used to pay any South African taxes, any VAT incurred for the purposes of the project may be refunded. This includes expenses such as the acquisition of motor cars and entertainment which are usually denied. The refund is effected by allowing the person who is appointed by the foreign donor as being responsible for administering the ODA and carrying out the project to register as a “foreign donor funded project” and to obtain a refund of the VAT incurred on the project deliverables.

If the “foreign donor funded project” is administered by a public authority, that public authority qualifies to register for VAT but the input tax claims are limited to the VAT incurred on goods or services acquired which are directly in connection with the implementation of the internationally funded project (including entertainment expenses). It does not entitle the public authority concerned to claim input tax on its normal VAT inclusive capital and operating costs.

The representative of the foreign donor funded project may apply for VAT registration and forward it to the SARS branch office in the area together with the following documents:

- Original certified copy of latest bank statement or original cancelled cheque or original letter from your bank.
- Original certified copy of passport / identity document of the representative person.
- Agreement between International Donor Fund and the RSA Government.

2.3.3 Diesel refund applicants

If you have an enterprise which consumes diesel in carrying on an enterprise involved in primary production activities such as agriculture, mining, fishing and coastal shipping, you can also register for the Diesel Refund Scheme which is being administered through the VAT system.

A qualifying diesel user may register for the scheme at the local SARS office by completing form VAT 101D and attaching it to the other documents required above for your VAT registration. VAT-registration is a pre-requisite for participation in the scheme.

Application forms and booklets providing details of the rules and procedures of the scheme are available at your local SARS office or from the [SARS website](#) under “TAX TYPES” ⇒ “VAT” or “Customs”.

Make sure that you actually qualify for the Diesel Refund Scheme before registering, as any incorrect refunds claimed would have to be paid back to SARS, together with penalty and interest (plus additional tax in the case of evasion). *For more information in this regard refer to [AS-VAT-DR-03 - Quick Reference Guide to Diesel Biodiesel Refund](#).*

2.4 HOW DO I CALCULATE THE VALUE OF TAXABLE SUPPLIES?

The value of taxable supplies (turnover) is calculated on an ongoing basis. When closing off your books for the month, you need to keep a running total of your turnover for the past 12 months. If this total has exceeded R1 million in any particular month, you must register from the first day of the next month. You also need to consider the next 12 months, because if it is likely that you will exceed the limit, you must register immediately or at least within 21 days of becoming aware that you will be liable to register.

Example 2 – Calculating the total value of taxable supplies for registration purposes

Bongi Zulu trades as “Bongi Construction”. He tenders for a building contract of R5 million. Presently the fees earned from construction activities average R10 000 per month (R120 000 per 12-month consecutive period).

If Bongi Construction is not awarded the contract, he has an option to register voluntarily, or he can elect not to register. However, if awarded the contract, he would immediately know that he is going to exceed the R1 million compulsory VAT registration threshold. In this case, he would be required to register his enterprise immediately and he would have 21 days in which to do this.

The table below gives a general indication of what to **include** and what to **exclude** when calculating the value of taxable supplies, to determine if you are liable for VAT registration.

Include	Exclude
<ul style="list-style-type: none"> • Sales/fees earned from goods and services supplied in the RSA 	<ul style="list-style-type: none"> • Sales from stock or capital assets when closing down your business or substantially reducing (permanently) the scale of your business
<ul style="list-style-type: none"> • Sale of goods exported to an export country 	<ul style="list-style-type: none"> • Sales from old plant, machinery or other capital assets when replacing them with new assets
<ul style="list-style-type: none"> • Services rendered outside the RSA 	<ul style="list-style-type: none"> • Any exempt supplies
<ul style="list-style-type: none"> • Sales from all branches and divisions falling under that person inside the RSA 	<ul style="list-style-type: none"> • Donations received by associations not for gain and welfare organisations
<ul style="list-style-type: none"> • Deemed supplies (<i>refer to Chapter 5</i>). 	<ul style="list-style-type: none"> • VAT

2.5 VOLUNTARY REGISTRATION

2.5.1 General

As mentioned in *paragraph 2.1* above, a person can apply for voluntary registration even though the total value of taxable supplies is less than R1 million. There is, however, a requirement that the value of taxable supplies already made must have exceeded the minimum threshold of R50 000 in the past 12-month period. Alternatively, if the nature of the business activity is such that it is only possible to make taxable supplies after a certain period of time, the Commissioner must be satisfied that it is reasonable to conclude that the minimum threshold will be exceeded in a 12-month period. (For example, plantation farming and mining activities.)

Note that it may be advantageous for a person to register voluntarily where goods or services are supplied mainly to other vendors and where the customer concerned will be able to deduct the VAT charged as input tax. It will generally not be advantageous for a person to register voluntarily where –

- the main or only supplies consist of the supply of services, where there are very few taxable expenses on which input tax can be deducted, for example, where the enterprise's main expense is salaries and wages; or
- most of the supplies are made to final consumers who are not registered for VAT.

Remember that if you choose to register, you will have to carry out all the duties of a vendor. For example, you will have to charge VAT, submit returns, make VAT payments on time and keep proper records for at least five years. If you decide to register, remember that you can only charge VAT on taxable supplies. You may not charge VAT on supplies which are exempt from VAT or supplies which fall outside the scope of VAT. (These are supplies which are not in the course or furtherance of your "enterprise"). *Refer to **Chapter 6** for more details and for examples of exempt supplies.*

2.5.2 Small Retailers VAT Package (SRVP)

The SRVP and the special method of calculating VAT in terms of the scheme was withdrawn with effect from 1 March 2010.⁷ However, transitional arrangements applied up until 31 May 2010 for certain vendors that were participating in the SRVP. SRVP was later accommodated under the Turnover Tax regime for micro businesses (*Refer to **paragraph 2.5.3** below*).

⁷ Refer to [Government Notice No. 169 published in Government Gazette No.32994 dated 1 March 2010](#).

2.5.3 Turnover Tax for micro businesses

Turnover Tax was initially introduced as a simplified tax system for micro businesses as an alternative to the current income tax and VAT systems. Micro businesses that made taxable supplies in excess of the minimum threshold of R50 000 in a 12-month period (or R60 000 in the case of suppliers of “commercial accommodation”) were previously not allowed to register voluntarily for VAT if registered for Turnover Tax. However, with effect from 1 March 2012 a qualifying micro business that is registered for Turnover Tax may also choose to register for VAT provided that all the conditions for voluntarily registration are met.

Furthermore, changes to Turnover Tax have the following impact on micro businesses:

- Turnover Tax rates were adjusted from **1 March 2011** so that a micro business only becomes liable to pay the tax if its annual turnover exceeds R150 000 (previously R100 000). This means that the first R150 000 (previously R100 000) of taxable turnover of all businesses registered for Turnover Tax is free of tax.
- The three-year restriction on voluntary deregistration from Turnover Tax is lifted. Businesses registered for Turnover Tax are allowed to voluntarily exit the system at the end of a year of assessment (last day of February) and will not be allowed to re-enter.
- SARS is empowered to register a micro business in the most appropriate tax system in cases where it is found that a business is not registered for Income Tax or Turnover Tax.

Where a VAT registered micro business applies to register for Turnover Tax for the 2011/2012 tax year, i.e. for the period 1 March 2011 to 29 February 2012, the current legislation will still be applicable. This means that the micro business will still have to deregister from VAT and be subject to the special rules to exit the VAT system. *For more information, refer to **paragraph 2.8** as well as the [SARS website](#) where you can find the [Comprehensive Guide to Turnover Tax](#).*

2.6 REFUSAL OF A VOLUNTARY REGISTRATION APPLICATION

The Commissioner will not allow any person to register voluntary for VAT if the applicant –

- has no fixed place of residence or business in RSA; or
- does not keep proper accounting records; or
- has not opened a banking account in the RSA; or
- has previously been registered as a vendor under VAT or General Sales Tax (GST) and failed to perform the duties of a vendor; or
- has not met the minimum threshold requirement of R50 000 turnover for the past 12 months.

2.7 SEPARATE REGISTRATION (BRANCHES, DIVISIONS AND SEPARATE ENTERPRISES)

A vendor may register separately any enterprises, branches or divisions carried on for VAT purposes. This means that it is possible for a vendor to have more than one VAT registration number if the enterprise is carried on in branches or divisions. A separate form VAT 102 must be completed for each enterprise/division/branch for which a separate registration is required. It is important to note that a person who operates several enterprises, or who operates an enterprise in branches or divisions cannot avoid the liability to register for VAT by considering the turnover of each branch or division individually. In such cases, the turnover of all the enterprises/divisions/branches must be added together to determine the total value of the supplies. Only associations not for gain (including welfare organisations) can apply to be excluded from this rule.

There are **two conditions** under which separate registration can be granted for any separate enterprise, division or branch, namely:

- An **independent system of accounting** for each business must be maintained.
- The entity must be **capable of being separately identified** (that is, either by the nature of the activities or the geographic location).

The implication of separate registration is that each separately registered enterprise/division/branch is treated as a vendor in its own right. Each enterprise/division/branch will therefore be required to –

- retain the **same tax period** as the main branch (except farmers in certain cases);
- submit **separate returns and payments**;
- retain the **same accounting basis** as the parent body and keep its **own accounting records**; and
- remain registered until cancelled by the parent body or until the parent body's registration is cancelled.

In addition, any transfers of taxable goods or services between the separately registered enterprises/divisions or branches must be accounted for on a VAT 201 return covering that period. As with any other supply, the recipient will require a tax invoice before being able to deduct input tax.

Example 3 – Separate registrations and the liability to register

Mrs N is a sole proprietor and trades under the following three trading names:

N's Curry Den	Speedy Florists	Bobby's Shoe Retailers
Turnover of R510 000	Turnover of R390 000	Turnover of R220 000

The combined turnover of the three businesses is R1 120 000. Since the type of supplies being made are not exempt (*refer to **Chapter 6** for examples of exempt supplies*), they will constitute "**taxable supplies**".

The "**person**" carrying on all three businesses is Mrs N, a sole proprietor. Since she is liable for VAT registration, she is referred to as a "**vendor**" and must account for VAT at 14% on all the sales in each business from the date of liability. Mrs N will only be issued with one VAT registration number, but she can apply for three separate VAT numbers if she meets the two conditions for separate registration, as mentioned in *paragraph 2.7* above. If SARS agrees to allocate separate VAT registration numbers, each separate business is deemed to be a **separate person** and VAT must be charged on supplies between the separate businesses, as well as to any other person.

2.8 CANCELLATION OF REGISTRATION

A vendor **may** apply for cancellation of registration if the value of taxable supplies is less than the compulsory registration threshold of R1 million in any consecutive period of 12 months.

The Commissioner **will** also deregister a vendor if –

- the enterprise closes down and will not commence again within the next 12 months; or
- the enterprise never actually commenced or will not commence within the next 12 months; or
- the person opts out of the VAT system and migrates to the Turnover Tax system.⁸

Whether you want to voluntarily deregister, or your circumstances have changed so that you are no longer liable or no longer eligible to be registered as a vendor, you should promptly inform the SARS office where you are registered in writing of your situation.

Cancellation of registration normally takes effect from the last day of the tax period in which the vendor ceases trading. However, in the case of a voluntary deregistration, the Commissioner will decide the date of deregistration and the final tax period. Remember though, that SARS cannot completely deregister you until all outstanding liabilities or obligations incurred under the VAT Act have been settled or resolved. For example, you can't be taken off the VAT register if you still owe SARS returns for past tax periods or if any VAT payments are outstanding.

⁸ Note, however, that as from 1 March 2012, a person may choose to be registered for VAT as well as Turnover Tax.

The Commissioner may also decide to deregister a person who has successfully applied for voluntary registration and it subsequently appears that the requirements mentioned under **paragraph 2.6** above have not been met. Any of a vendor's separately registered enterprises/divisions/branches may also be cancelled if –

- the vendor applies in writing;
- the main registration is cancelled; or
- it appears to the Commissioner that the duties under the VAT Act have not been carried out properly.

The effect of the cancellation of a branch registration is that all duties revert to the main branch. Refer to **paragraph 5.4: "Deemed Supplies"** for the VAT implications of cancelling any VAT registration number.

With effect from 1 March 2009, the compulsory VAT registration threshold increased from R300 000 to R1 million. If a vendor's total value of taxable supplies did not exceed R1 million in the previous 12-month period and is not likely to exceed that amount in the next 12-month period, that vendor may apply to deregister for VAT.⁹

Vendors that want to deregister voluntarily have two options. The first option of ordinary deregistration is where the vendor has no intention to continue as a voluntary VAT registrant. In this case, the vendor may simply apply to be deregistered on the basis that the value of taxable supplies is less than R1 million in a 12 month period. In the second option, the vendor can apply to participate to the Turnover Tax system for micro businesses and may choose to deregister for VAT, as there is no longer an automatic deregistration from the VAT register.

Some of the implications of these two options are discussed briefly below:

(a) *Ordinary deregistration*

- Form VAT 123 must be completed and submitted to the SARS branch office where the vendor is registered and must indicate clearly on the form or in a separate letter, the circumstances under which the deregistration application is made.¹⁰
- A letter of acknowledgement will be sent to the applicant with further instructions regarding the deregistration process. Vendors must continue to charge and declare VAT on supplies made up to the last day of the final tax period as advised by SARS in the letter of acknowledgement.
- The applicant must declare output tax in Field 1A of the final VAT return relating to the final tax period (as determined by the Commissioner) on the lower of cost or open market value of all enterprise assets held in the business at the date of deregistration. (This is referred to as "exit VAT"). The exit VAT must be declared together with any other VAT which is due for that tax period.
- Vendors that were under the voluntary registration threshold of R50 000 were required to deregister with effect from 1 March 2010. Vendors that could not afford to pay the full amount of exit VAT on assets held in the enterprise as at 28 February 2010 were allowed to apply for a payment arrangement. However, the full liability had to be declared on the final VAT return together with any VAT which was due for the last tax period. If permission was granted, the VAT payable on deregistration had to be paid in equal monthly instalments over a maximum period of six months¹¹ without any penalty or interest. These arrangements are only available to vendors that had to deregister solely as a result of the increase in the voluntary registration threshold. Defaulting on the payment arrangement will result in interest being charged.
- The applicant will be deregistered from the VAT system, but will continue to be registered for income tax.

⁹ Vendors that were under the threshold of R1 million but wanted to continue as voluntary VAT vendors when Turnover Tax was first introduced were not required to notify SARS. However, a separate exercise was conducted by SARS at the time to ensure that vendors on the register actually met the minimum requirements.

¹⁰ Form [VAT 123 I](#) must be completed when application is made to cancel the VAT registration of a separately registered enterprise/branch/division.

¹¹ Refer to [Government Notice No. R.211 published in Government Gazette No. 33036 dated 19 March 2010](#).

(b) *Deregistration and participation in Turnover Tax*¹²

- Vendors that want to participate in the Turnover Tax system must **complete and submit the [Turnover Tax Application Form \(TT01\)](#) to SARS before the commencement of the relevant year of assessment (1 March)** or by a specified later date as the Commissioner may allow.
- Successful applicants will be notified that they have been registered for the Turnover Tax.
- After approval and notification of the successful registration for Turnover Tax, a letter of acknowledgement will be sent to the applicant with further instructions regarding the VAT deregistration process. Vendors must continue to charge and declare VAT on supplies made up to the last day of the final tax period as determined by SARS and which will be specified in the letter of acknowledgement.
- The applicant must declare output tax in Field 1A of the final VAT return on the lower of cost or open market value of all enterprise assets held in the business at the date of deregistration. Where the declared value of assets (including VAT) is less than, or equal to R100 000, no VAT will be payable upon deregistration. Where the value of assets exceeds R100 000, VAT is only payable on the amount by which the assets exceed R100 000. This VAT must be declared in the final VAT return together with any other VAT which is due for the final tax period.¹³
- The applicant will be entitled to pay the exit VAT in six equal monthly instalments (or longer period which may be allowed by the Commissioner in the circumstances). A separate application in this regard should be submitted together with the application form [TT01](#), or before, or together with, the submission of the final VAT return. Defaulting on the payment arrangement will result in interest being charged.

For example, if the assets are worth R500 000 (including VAT), the VAT payable on deregistration is calculated as follows:

$$\begin{aligned} \text{Exit VAT on deregistration} &= [(R500\ 000 - R100\ 000) \times 14/114] \\ &= R400\ 000 \times 14/114 \\ &= \mathbf{R49\ 122.80} \end{aligned}$$

(Only this amount may be paid over six months and not the total VAT which is due for the final tax period).

¹² Refer to the [Comprehensive Guide to Turnover Tax](#) for more information.

¹³ The maximum amount of R100 000 that may be applied as a reduction against the value of assets upon which VAT is calculated when exiting the VAT system cannot reduce output tax liability below zero. In addition, the R100 000 reduction is, with effect from 2 November 2010, no longer subject to recoupment if the person is later required to re-enter the VAT system.

CHAPTER 3

TAX PERIODS

3.1 WHICH TAX PERIODS ARE AVAILABLE?

You are required to submit returns and account for VAT to SARS according to the tax period allocated to you. Available tax periods cover one, two, four, six or 12 calendar months. On acceptance of your registration by SARS, you will be allocated one of these categories. Tax periods end on the last day of a calendar month. You may, however apply to the SARS branch office in writing for your tax period to end on another fixed day or date, which is limited to 10 days before or after the month end (the 10-day rule). This must be approved in writing and can only be changed with the written approval of SARS.

3.1.1 Two-month tax period (Category A or B)

This is the standard tax period, which is generally allocated at the time of registration. Under this category you are required to submit one return for every two calendar months.

- Category A is a two-month period ending on the last day of January, March, May, July, September and November.
- Category B is a two-month period ending on the last day of February, April, June, August, October and December.

3.1.2 One-month tax period (Category C)

Under this category you are required to submit one return for each calendar month. You will be registered according to Category C when –

- your turnover exceeds or is likely to exceed **R30 million** in any 12-month consecutive period. Where you operate more than one business, or operate a business with branches, the sales of all the businesses or branches must be added together to determine a total turnover. This applies, whether or not the other businesses or branches have separate VAT registration numbers;
- you have applied in writing for this category; or
- you have repeatedly failed to perform any obligations as a vendor.

You will cease to be registered under Category C if you apply in writing to be allocated to a different tax period and SARS is satisfied that you meet the requirements of the relevant category. Should your turnover exceed R30 million subsequent to your registration for VAT, you are required to notify SARS to amend your registration to a Category C tax period within 21 days of becoming liable to register for a Category C tax period. Failure to notify SARS may result in interest and penalties being levied. As from 1 May 2011 all vendors falling within Category C tax period must submit their returns in electronic format and make payments electronically on eFiling.

3.1.3 Six-month tax period (Category D)

Under this category you are required to submit one return for every six calendar months. This is a category solely for farmers, farming enterprises or associations not for gain that are carrying on a farming activity, with a total turnover of **less than R1.5 million** per consecutive period of 12 months. Your allocation under this category means that you are required to submit your returns for a six-month period usually ending on the last day of February and August. You may, however, apply to the local SARS office to alter the end of the period to another month. An individual's six-month period will be on the last day of February and August. A company or close corporation's financial year-end date will determine on which months their tax periods will end.

Section 25 of the VAT Act requires a vendor that is registered as a farmer to notify SARS once the total value of taxable supplies has exceeded R1.5 million in any 12-month consecutive period.

3.1.4 Twelve-month tax period (Category E)

Under this category you are required to submit one return for 12 calendar months. This category is for vendors whose tax periods are periods of 12 months ending on the last day of their “year of assessment” as defined in section 1 of the Income Tax Act or where any vendor falling within this category makes written application therefore on the last day of such other month as the Commissioner may approve. The vendor applying for registration under this category must comply with the following:

- The vendor must be a company or a trust fund.
- The supplies by the vendor applying for Category E must be made to a connected person in relation to that vendor consist solely of -
 - the letting of fixed properties; or
 - the renting of movable goods; or
 - the administration or management of such companies,
- The connected person who receives the supply must be registered for VAT and must be entitled to deduct the full amount of input tax in respect of those supplies.
- The vendor must agree with the recipients that tax invoices are issued only once a year at the end of the year of assessment of the vendor making the supplies.

Only vendors with certain activity codes can apply to be registered on Category E tax period. For more details in this regard refer to the document [External policy for application for change of tax periods – \(AS-VAT-27\)](#) on the [SARS website](#) under “[All publications](#)”.

3.1.5 Four-month tax period (Category F)

With effect from 1 August 2005, a new tax period (Category F) was introduced to assist small businesses. The four-month tax periods for each year are as follows:

- March to June to be submitted in July.
- July to October to be submitted in November.
- November to February to be submitted in March.

Category F tax periods are only available to vendors (including companies and close corporations) that –

- have a taxable turnover (that is, standard and zero-rated sales) which is less than R1.5 million in any consecutive period of 12 months, or which is not expected to exceed that amount during the period; and
- do not conduct their business under different VAT registered branches, even if the combined taxable turnover of those branches is less than R1.5 million in the 12 month period.

3.2 ALLOCATION AND CHANGE OF TAX PERIODS

3.2.1 New registrations

The Commissioner will determine whether the vendor falls within Category A or Category B. If a tax period other than Categories A, B or C are required, the vendor needs to meet the requirements for that tax period.

3.2.2 Vendors already registered for VAT

A request for a change of category can only be implemented with effect from a future date, and cannot be backdated, except in the following instances:

- if the wrong category has been captured in the registration process; or
- if the circumstances of the vendor have changed such that it is required for that vendor to be registered within another category. (For example, if the taxable supplies exceed R30 million in any consecutive period of 12 months, Category C is applicable).

3.2.3 Change of circumstances after registration

As mentioned in **paragraph 3.2.1** above, the Commissioner determines whether the vendor falls within Category A or Category B. A change of category from two-monthly (A or B) to monthly (C) can generally only be effected from a future date and cannot be backdated unless the vendor has already exceeded the R30 million threshold in a prior tax period.

If the vendor's total value of the taxable supplies has exceeded R30 million in any consecutive period of 12 months, the tax period will be changed programmatically to Category C. The vendor will be informed of the change of category by means of a form VAT 103. Furthermore, a vendor is also required to inform SARS when the turnover exceeds R30 million in any consecutive period of 12 months. If however, the tax period has been changed to Category C and in the next 12 months the taxable supplies will be less than R30 million, the vendor must inform SARS in writing.

When a vendor falls within Category D (applicable to farmers), and the total value of the taxable supplies for the past 12 months has exceeded R1.5 million, the system will programmatically change the tax period from Category D to Category A or B. The vendor will be informed of the change of category by means of a form VAT 103. If however the category has been changed to A or B and in the next 12 months the taxable supplies should be less than R1.5 million the vendor must inform the SARS branch office in writing thereof.

3.3 THE 10-DAY RULE

Whilst the tax period normally ends on the last day of the month, there is provision for vendors to adopt a date ending on a day other than the end of the month. If a vendor has an accounting date within 10 days before or after the end of the month in which the tax period ends, the vendor may use that date as the last day for the tax period. A vendor who wishes to apply this option must ***select a fixed day or date approved by the Commissioner before or after the end of the tax period and to apply the date consistently from one tax period to the next.***

For example, a vendor may select the 27th day of a month (fixed date), or the last Friday in the month (fixed day but not a fixed date). The election by the vendor to use a cut-off date allowed under the 10-day rule does not affect the due date for submitting the return (which remains the 25th day after the end of the month covered by that tax period).

SARS has approved the following categories of fixed cut-off dates subject to the 10-day rule:

- a specific day of the week;
- a specific date of a calendar month; or
- a fixed day determined in accordance and consistent with the vendor's commercial accounting periods.

This approval has been given by the Commissioner by way of a binding general ruling contained in paragraph 5 of [Interpretation Note No. 52: Tax periods](#) dated 14 December 2009. Vendors that comply with the requirements do not need to apply for a specific ruling.

CHAPTER 4

ACCOUNTING BASIS

4.1 INTRODUCTION

One of the underlying principles of the South African VAT system is that it is an invoice-based tax. This means that vendors are generally required to account for VAT on the basis of invoices being issued or received. This method of accounting is referred to as the “invoice basis” or “accrual basis”. However, certain vendors may qualify to use a different method referred to as the “payments basis” or “cash basis” of accounting. The differences between these two methods, as well as the requirements for each are discussed below.

4.2 INVOICE BASIS

Under this method of accounting vendors must account for the full amount of VAT included in the price of the goods or services supplied in the tax period in which the **time of supply** has occurred. This applies to the output tax liability on cash and credit sales as well as the input tax that may be deducted on cash and credit purchases.

According to the **general time of supply rule**, a supply occurs at the **earlier of** the following events:

- At the time that an invoice is issued.
- At the time any payment is received by the supplier.

Section 9 of the VAT Act also contains special time of supply rules. Where a special rule applies, the general rule will not apply. Examples include rental agreements, fixed property, coin operated vending machines etc. Refer to **Chapter 5** for more details.

All vendors must account for VAT on the invoice (or accrual) basis unless application has been made and permission has been received from the Commissioner to use the payments basis of accounting. (Note however that fixed property transactions are treated on the payments basis – refer to **paragraph 4.5.2**).

Vendors must therefore account for the full amount of output tax on any supplies made in the tax period, even where payment has not yet been received from the recipient. Similarly, the full amount of input tax may be deducted on supplies received in the tax period, even where payment has not yet been made. A tax invoice must however be held by the vendor deducting the input tax. Furthermore, the vendor also needs to consider if the input tax on any particular supply is specifically denied before deducting it. Some of the advantages and disadvantages of the invoice basis of accounting are set out in the table below.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Deduct VAT incurred on purchases before payment. • Fewer adjustments required when reconciling for income tax purposes. • Easy to calculate and implement accounting systems (based on invoices issued/received for sales and purchases). 	<ul style="list-style-type: none"> • Account for VAT on sales before receiving payment from debtors. • List of debtors and creditors must be retained at the end of each tax period. • Can lead to cash flow problems.

4.3 PAYMENTS BASIS

The payments basis (or cash basis) uses the same time of supply rule mentioned above, but the vendor only accounts for VAT on actual payments made and actual payments received in respect of taxable supplies during the period. The payments basis is therefore intended to help small businesses. (Note however the special cases discussed in **paragraphs 4.5.1** and **4.5.3** below which are to be treated as if the vendor is registered on the invoice basis).

A vendor must apply in writing to SARS before being allowed to apply the payments basis, which, if approved, will only apply from a future tax period as specified by SARS. A vendor who no longer qualifies for the payments basis must also notify SARS within 21 days of the end of the tax period concerned and use the invoice basis from that date onwards.

The payments basis is only available to –

- Vendors who are **natural persons** (or partnerships consisting only of natural persons) whose total taxable supplies at the end of a tax period have **not exceeded R2.5 million** in the previous 12 months, and are not likely to exceed R2.5 million in the next 12 months;
- **Public authorities, water boards; regional electricity distributors; certain municipal entities; municipalities, associations not for gain and welfare organisations** – regardless of the value of taxable supplies.

Juristic persons such as companies and trusts do not qualify for the payments basis unless they are the type of entity included in any of those listed below (for example, a section 21 company which is also a welfare organisation).

A few advantages and disadvantages of the payments basis of accounting are set out in the table below.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Suits small business • Facilitates cash flow • Advantageous when the vendor allows lengthy periods of credit 	<ul style="list-style-type: none"> • Not available to everyone • Deduct VAT only after payments made to suppliers • More difficult to implement accounting systems to manage, administer and calculate accurately (for example, reconciliation with income tax returns and adjustments).

Example 4 – Comparison of invoice basis vs payments basis of accounting

Assume the following sales and purchases figures (including VAT) for the tax period Jan to Feb 2009. Input tax and output tax is calculated by applying the tax fraction 14/114 to the relevant amounts – that is, amounts invoiced (invoice basis) and cash amounts (payments basis).

	<u>Invoice basis</u>	<u>Payments basis</u>
Output tax	R	R
Total sales R57 000 (cash received R11 400)	7 000	1 400
Input tax		
Total purchases R22 800 (paid full amount in cash)	<u>2 800</u>	<u>2 800</u>
VAT payable/ (refundable)	4 200	(1 400)

4.4 CHANGE OF ACCOUNTING BASIS

A change of accounting basis may occur where the vendor voluntarily wants to adopt a more suitable system for the type of business concerned (provided the requirements are met). This could involve a change from the invoice to the payments basis, or vice versa, depending on the advantages and disadvantages for that particular business. The vendor can apply to change the basis of accounting by completing form VAT 117.

Alternatively, SARS may require a vendor to change from the payments basis to the invoice basis because the vendor ceases to qualify for the payments basis. For example:

- A vendor who is an individual may have achieved business growth over time and managed to exceed R2,5 million, which is the threshold prescribed in the VAT Act; or
- A vendor who is an individual may decide to conduct the business activities under a different legal entity such as a company, and so, be disqualified from utilising the payments basis of accounting. (This will also require a new registration to be processed and a new VAT registration number to be issued).

If the increased turnover is solely as a result of enterprise assets being sold because of a permanent reduction in the size of the business or due to abnormal circumstances of a temporary nature, the payments basis may be retained with the permission of SARS. Whatever the reason for changing the accounting basis, the vendor must submit a calculation and a list of debtors and creditors to the SARS office where that person is registered and make the necessary adjustment on the return for the period concerned. SARS will send the vendor a form VAT 118 which will indicate the tax period from which the change will apply as well as how to do the required calculation.

Example 5 – Change in accounting basis adjustment

Sam is a sole proprietor and trades under the name “Sam’s Discount World”. He is registered on the payments basis and noticed that the turnover for the previous 12 months has increased to R2.9 million. He now has to make the required adjustment in respect of debtors and creditors. SARS sends Sam a form VAT 118, which indicates that he must change to the invoice basis as from 1 August 2009.

On the 31 July 2009, Sam draws up the list, which reflects the balance of debtors to be R 250 000 (including VAT) and the balance of creditors to be R215 000 (including VAT). The following calculation must now be performed:

	R
Debtors:	250 000
Less Creditors	<u>215 000</u>
Difference	<u>35 000</u>

VAT on the difference is:
 $R35\,000 \times 14/114 = R4\,298.25$
 Sam declares this amount in block 12 on his VAT return (output tax).

If the amount owing to creditors was greater than the amount owing by debtors, the difference would represent input tax. For example, if Sam's creditors amounted to R300 000 and the debtors amounted to R200 000, the calculation would have been as follows:

	R
Debtors:	200 000
Less Creditors	<u>300 000</u>
Difference	<u>(100 000)</u>

VAT on the difference is:
 $R100\,000 \times 14/114 = R12\,280.70$
 which would be deducted in block 18 on the VAT return (input tax).

Note:

Remember to exclude any amounts included in debtors and creditors which do not include VAT at the standard rate (for example, debtors and creditors for exempt or zero-rated supplies)

4.5 SPECIAL CASES

The accounting basis will determine **how much** output tax must be paid or input tax deducted on a particular supply. There are, however, special provisions which treat certain supplies differently, irrespective of the accounting basis. These are as follows:

4.5.1 Instalment credit agreement (ICA)

Suppliers of taxable goods and/or services under an ICA must account for the full amount of output tax irrespective of the accounting basis on which they are registered. Similarly, the recipient will be able to deduct the full input if the goods were acquired for making taxable supplies (that is, these supplies are treated as if on the invoice basis).

4.5.2 Fixed property supplied on or after 6 June 1996

Vendors making taxable supplies (sales) of fixed property on or after 6 June 1996 must account for output tax only insofar as the consideration for the supply has been received, irrespective of the accounting basis on which they are registered. Similarly the recipient may only deduct input tax to the extent that payment of the consideration has been made (that is, these supplies are treated as if on the payments basis). This rule does not apply where the purchaser is a vendor and a “connected person” in relation to the supplier, if the purchaser is able to deduct a full input tax credit on the supply.

4.5.3 Consideration more than R100 000

Where the supply is made on or after 5 June 1997 for a consideration of R100 000 or more, vendors registered on the payments basis (other than municipalities and public authorities) must account for the full amount of output tax in the period in which the supply occurs (that is, the supply is treated as if on the invoice basis). This rule does not apply to the sale of fixed property as there is a special rule for these supplies as discussed in **paragraph 4.5.2** above.

CHAPTER 5

TAXABLE SUPPLIES

5.1 INTRODUCTION

As mentioned in **Chapter 1**, VAT is levied on the supply by any vendor of goods or services in the course of an enterprise carried on. The term “enterprise” as defined, basically follows the lines of a business activity test which has certain exclusions (e.g. exempt supplies and supplies which are outside the scope of VAT). Where the income from “taxable supplies” exceeds R1 million in any 12-month consecutive period, that person must register as a VAT vendor (*refer to Chapter 2*). A “vendor” is a person who is liable to charge VAT on taxable supplies, whether that person has actually applied for VAT registration or not. The term “taxable supplies” includes all supplies made by a vendor in the course or furtherance of an enterprise on which VAT should be levied at the standard rate or the zero rate. As exempt supplies are not taxable supplies, no output tax is levied and no input tax may be deducted on any expenses attributable to making those supplies. *For more information regarding exempt supplies and input tax, refer to Chapters 6 and 7 respectively.*

A person is considered to be carrying on an “enterprise” if **all** of the following requirements are met:

- An **enterprise or activity** is carried on **continuously or regularly** by a **person in the Republic** or partly in the Republic.
- In the course of the enterprise or activity, **goods or services** are **supplied** to another **person**.
- **Consideration** is payable for the goods or services supplied.

The term “**supply**” is widely defined in the Act to include transactional performance under any sale, rental agreement, instalment credit agreement. It also includes all other forms of supply, whether voluntary, compulsory or by operation of law, irrespective of where the supply is effected, and includes any derivative of the term.

5.2 STANDARD-RATED SUPPLIES

A standard-rated supply is a supply of goods or services which is subject to VAT at the rate of 14%. As explained in **Chapter 1**, as a general rule, the supply of **all** goods and services are taxable at the standard rate, unless it is specifically zero-rated in terms of section 11 (*refer to paragraph 5.3*), or exempt in terms of section 12 of the VAT Act (*refer to Chapter 6*).

The following are some examples of standard-rated supplies (the list is not exhaustive):

- Land and buildings (fixed property) – commercial or residential property bought from property developers, building materials, vacant land bought from a vendor etc.
- Fees for professional services – construction/building, estate agents, consultants, architects, engineers, project managers, doctors, private hospital services, lawyers, plumbers, electricians and accountants.
- Household consumables and durable goods – most grocery items and foodstuffs such as meat, fish, white bread, snacks, most canned foods, cigarettes, perfume, medicines, cool drinks, cleaning materials, clothing, footwear, microwave ovens and other household consumables and appliances.
- Municipal goods and services such as the supply of electricity, water and refuse removal. Various non-taxable supplies by municipalities became taxable at the standard rate on 1 July 2006. (*Refer to [VAT News No 28](#) and the [VAT 419 - Guide for Municipalities](#) on the [SARS website](#) for more details*).
- Accommodation, hospitality, tourism and entertainment – restaurant meals, hotel accommodation, liquor sales, arcade amusements, casino slot machines and gambling services, entrance fees to sporting events, theatre performances and film shows, guided tours, game drives and game hunting expeditions. *Refer to the [VAT 411 - Guide for Entertainment Accommodation and Catering](#) for more information in this regard.*
- Capital assets such as furniture, production machinery, installations, motor vehicles and equipment.

- Local transport of goods (all modes of transport) and transport of passengers by air or sea.
- Telephone, internet, computer and other telecommunication services.
- Rental of goods and commercial property such as office space.
- Motor vehicles, repair services, lubrication oils and spare parts.

When a standard rated supply is made, VAT (output tax) must be charged at the prescribed rate (currently 14%) and input tax may be deducted on any goods or services acquired in the course of making those taxable supplies. The net VAT due by a vendor is calculated by subtracting the input tax incurred from the output tax charged during the tax period. Refer to **Chapter 8** for more details about calculating your VAT.

5.3 ZERO-RATED SUPPLIES

Zero-rated supplies are taxable supplies on which VAT is levied at a rate of 0%. The application of the zero rate must be supported by documentary proof acceptable to the Commissioner. These requirements are set out in [Interpretation Note No. 30 \(issue 2\) dated 15 March 2006 \(consignment or delivery of movable goods\)](#) and [Interpretation Note No. 31 dated 31 March 2005 \(zero-rating of goods and services\)](#) respectively. Refer also to **Chapter 10** for more detail on exports and the documentation required.

Some examples of zero-rated supplies are briefly explained in **paragraphs 5.3.1** to **5.3.11** below:

5.3.1 Certain basic foodstuffs

Certain basic foodstuffs are zero-rated, provided it is not supplied for immediate consumption (that is, as a meal or refreshment) or added to a standard-rated supply.

These include the following:

- | | |
|---|--|
| • brown bread | • dried mealies and mealie rice |
| • brown bread flour (excluding wheaten bran) | • samp |
| • hens eggs (that is, not from ostriches, ducks etc) | • fresh fruit and vegetables |
| • dried beans | • lentils |
| • maize meal | • rice |
| • pilchards in tins or cans | • vegetable cooking oil (excluding olive oil) |
| • milk, cultured milk, milk powder and dairy powder blend | • edible legumes and pulses of leguminous plants (that is, peas, beans, peanuts etc) |

The zero rate will **not apply** where –

- Zero-rated foodstuffs are prepared for immediate consumption, for example –
 - a glass of milk served in a restaurant;
 - salad or fruit salad which is ready to eat; and
 - sandwiches and other take-away foods.
- A standard rated product or ingredient is supplied together with a zero-rated foodstuff, for example –
 - a pack of vegetables containing a pack of flavoured butter;
 - a pack of rice or beans containing a sachet of flavouring;
 - a gift hamper consisting of a basket of fruit;
 - flavoured cooking oil; and
 - a pack of salad to which salad dressing has been added.

5.3.2 Fuel levy goods

Most motor fuels are subject to taxes such as the General Fuel Levy, the Road Accident Fund Levy as well as Excise duty. The VAT Act therefore provides that certain specified “fuel levy goods” are subject to the zero rate. These include crude oil and certain petrol and diesel based products (including biodiesel from 1 April 2006), which are used as fuel in internal combustion engines. Examples include fuels used in motor cars, trucks, buses, ships, fishing boats, railway locomotives, farming and production machinery. Petroleum oils and crude oil which are refined for the production of fuel levy goods are also zero-rated; however, aviation kerosene, motor oil and oil lubricants are subject to the standard rate.

From 1 April 2001 the sale of illuminating kerosene (paraffin) intended for use as fuel or for heating is subject to VAT at the zero rate. However, with effect from 1 April 2006 the zero rate only applies to illuminating kerosene which has been “marked”. Any “unmarked” illuminating paraffin or other forms of paraffin which are blended or mixed with any other products are subject to the standard rate of VAT.

5.3.3 Going concern

The sale of a business or part of a business which is capable of separate operation as a going concern qualifies for the zero rate if **all** of the following requirements are met at the time of entering into the agreement:

- **Both parties must be VAT vendors** (if not yet registered at the time of concluding the contract, the purchaser can backdate the registration liability date to the date of the contract).
- It must be clearly evident, and stated in the wording of the **written agreement** that –
 - the **enterprise** is sold as a going concern¹⁴;
 - the business is, or will be **an income-earning activity** on the date of transfer;
 - the whole business or a part of it which is capable of separate operation is disposed of to the purchaser, including **all the assets necessary for carrying on the enterprise** or part thereof; and
 - the consideration **includes VAT at the rate of 0%**.

Where any of the above requirements are not met, the supply of the enterprise will be subject to VAT at the standard rate of 14%.

Some examples of where an income-activity is not disposed of are:

- The sale of a bakery business without the ovens.
- The sale and leaseback of a commercial building.
- The transfer of the bare dominium of an asset.
- The disposal of a business yet to commence.
- The disposal of a dormant business.

For more information on going concerns, refer to [Interpretation Note 57: Sale of an enterprise or part thereof as a going concern](#) issued in March 2010 and Chapter 9 of the [VAT 409 - Guide for Fixed Property and Construction](#).

5.3.4 Farming goods

The supply of certain goods acquired and used for agricultural, pastoral or farming purposes may be zero-rated in certain circumstances. Some examples are animal feed, animal remedies, fertilizer, pesticide and plants and seeds in a form used for cultivation. Refer to **Chapter 9** for more information.

¹⁴ It is important to note that the **subject of the agreement** must be an “enterprise” as a going concern. In other words, the *merx* of the contract must be the business or enterprise, which includes all the necessary income earning business assets, client base, and so on. This provision cannot be used to allow the sale of individual physical assets such as **fixed property** to be treated as a going concern. For example, where a vendor sells the property from where its business is conducted, the subject of the supply is the fixed property and not the enterprise. In that case, VAT must be charged at the standard rate whether income is earned from that fixed property or not.

5.3.5 Goods temporarily imported for repairs

VAT is a tax on local consumption. Where consumption is outside of the RSA, the zero rate applies. Where goods are temporarily admitted into the RSA for processing, repair, cleaning or reconditioning, the services supplied directly in connection with those goods are zero-rated. Any goods which are consumed or permanently affixed to those goods as a consequence of the services being rendered will also be zero-rated. This also applies to foreign-going ships or aircraft. The foreign importer must furnish the Controller of Customs and the supplier with a completed VAT 262 form.

Example 6 – Foreign-going aircraft temporarily imported for repairs

A foreign-going aircraft needs repairs to be carried out to its landing gear while stationed at the Cape Town International Airport. A local vendor is contracted to do the repairs. The services (labour) and spare parts (welding rods, gas, welding plates etc.) used in the repairs may be zero-rated, provided the necessary documentary requirements are met.

5.3.6 Exports

The direct export of goods may be zero-rated. In certain instances, the indirect export of goods may also qualify for the zero rate. In both cases certain documentary and other requirements must be met to support the application of the zero rate. Refer to **Chapter 10** for more information on exports.

5.3.7 International transport

The international transport of goods or passengers is zero-rated. This includes the cross-border transport of goods or passengers from a place outside the RSA into the RSA or *vice versa*. The transportation of goods or passengers from two places outside the RSA also qualifies for the zero rate. The vendor supplying the service must be responsible for the total movement of passengers or goods from the starting point to the final destination. Furthermore, the transport by air of passengers is zero-rated to the extent that it constitutes “international carriage”. This term refers to the local leg of a flight that forms part of an international journey.

The transport of goods between two places in the RSA is zero-rated to the extent that the supply is by the same supplier, and the local transportation service is an integral part of the international transportation service. The contractual arrangement for the local and international portion of the transportation service must accordingly be between the same supplier and recipient. This does not necessarily mean that the service must physically be performed by the same supplier. The supplier may sub-contract part of the transport service, but must still be contractually liable to the recipient for that part of the transportation.

5.3.8 Land situated in an export country

Any service supplied directly in connection with land situated outside the RSA is zero-rated. For example, where a South African resident contracts with a South African vendor to paint a house situated in Botswana, the zero rate will apply.

5.3.9 Services physically performed outside the Republic

The supply of services physically rendered or performed outside the RSA qualifies for the zero rate. This provision will apply to both residents and non-residents. For example, if a South African vendor constructs a building in Botswana for an RSA resident, those services are subject to VAT at the zero rate. This provision also applies to services physically performed for a vendor in a customs controlled area.¹⁵

¹⁵ A customs controlled area is a designated area within an Industrial Development Zone (IDZ) in the Republic and is described in section 21A of the Customs and Excise Act. Refer to [Interpretation Note 40: VAT treatment of the supply of goods and/or services to and/or from a Customs Controlled Area of an Industrial Development Zone](#) dated 4 December 2007 for more details in this regard.

5.3.10 Certain services supplied to non-residents

Where services are supplied to a non-resident who is not in the RSA at the time the services are rendered, the supply will qualify for the zero rate [section 11(2)(f)]. Note that the standard rate will apply where the services are directly in connection with:

- fixed property (land and improvements) situated in the Republic; or
- movable property which is situated in the RSA at the time the services are rendered. However, the services supplied may still qualify for the zero rate if:
 - the said movable property is subsequently exported; or
 - the services supplied by the RSA vendor forms part of a supply by the non-resident to the recipient vendor and the services are acquired wholly for taxable purposes by that recipient.

The supply of services in respect of a restraint of trade in the RSA is standard-rated.

Example 7 – Services supplied by a vendor to a non-resident in respect of movable property

(a) Where the movable property is subsequently exported

Gold Rock is an RSA vendor and a supplier of mining equipment. Gold Rock supplies a machine to *Kivu Minier*, a Belgian company that is not an RSA resident and not a vendor in the RSA. *Kivu Minier* will take delivery of the machine in the Democratic Republic of Congo (DRC), but before Gold Rock can export the machine, it has to be calibrated so that it can be used in the DRC. *Kivu Minier* therefore acquires the services of Calibration International (an RSA vendor) to calibrate the machine at the premises of Gold Rock before exportation. As the services supplied by Calibration International will be made directly in connection with movable goods situated in the RSA, VAT would usually be charged at the standard rate. However, as the machine is subsequently exported to *Kivu Minier*, the supply of services by Calibration International (including any incidental goods incorporated into the machine, or consumed in the process of rendering the calibration services) will be subject to VAT at the zero rate.

(b) Where the RSA vendor's supply is part of the non-resident's supply

Krebs is a German resident which supplies extrusion machines to manufacturers in the plastics industry worldwide. It does not carry on an enterprise in RSA. Blue Sky is an RSA vendor and a manufacturer of various plastic products. It purchases an extrusion machine from *Krebs* on the understanding that *Krebs* will also do the necessary installation work. *Krebs* sub-contracts the installation work to Installation Services (an RSA vendor) who will perform the necessary services on behalf of *Krebs* at Blue Sky's premises. As the supply of the service by Installation Services forms part of the supply by *Krebs* to Blue Sky, the supply by Installation Services to *Krebs* (who is not an RSA resident and not a vendor) is subject to VAT at the zero rate.

5.3.11 Municipal property rates

With effect from 1 July 2006, any municipal property rates charged by a municipality are subject to the zero rate. However, the municipal rates charge must be separate and distinct from other charges levied for goods or services by that municipality. Therefore, where a municipality charges a "flat rate" which includes a charge for municipal rates, plus other charges for water, electricity, refuse removal, or other standard-rated goods or services supplied, the entire charge is subject to the standard rate.

5.4 DEEMED SUPPLIES

As a registered vendor, you may sometimes be required to declare an amount of output tax even though you have not actually supplied any goods or services. The VAT Act contains deeming provisions which both widen the range of transactions subject to VAT and clarify the instances where certain transactions will be deemed to be taxable or not. Deemed supplies will generally attract VAT at the standard rate. However, in some instances the zero rate will apply.

Examples of deemed supplies on which a vendor has to account for output tax at the **standard rate** include –

- trading stock taken out of the business for private use;
- certain fringe benefits provided to staff;
- assets retained upon ceasing to carry on an enterprise;
- short-term insurance claims that have been paid in connection with the enterprise (for example, insurance payout received for damaged or stolen stock);
- the receipt of payments from government by designated entities for the purposes of taxable supplies;
- change in use adjustments (*Refer to Chapter 13*).

Grants or subsidies received from government give rise to a deemed supply by the recipient to the public authority or municipality making the payment. The deemed supply is subject to VAT at the **zero rate** in the hands of the recipient, **unless the receipt constitutes payment for the actual procurement of goods or services** by the public authority or municipality making the payment.

Example 8 – Insurance indemnity payment

Peter's Deliveries' driver was involved in an accident on 25 March 2009 in which the delivery van was damaged. Peter's insurance company issues him with a cheque for R57 000 on 1 June 2009 to compensate for the loss. As he is registered under Category B tax period, and the indemnity payment is deemed to be received in the course of his enterprise, Peter must account for output tax in his June 2009 return. The VAT is calculated on the amount received, therefore $R57\ 000 \times 14/114 = R7\ 000$.

5.5 TIME OF SUPPLY

Generally, the time of supply is the earlier of the time an invoice is issued by the supplier (or the recipient) in respect of that supply, or the time any payment of consideration is received. However, specific time of supply rules applies to certain transactions. A few examples are dealt with in *paragraphs 5.5.1 to 5.5.5* below.

5.5.1 Connected persons

Where the supplier and the recipient are connected persons, a supply of goods or services is deemed to take place as follows:

- Where the supply is of goods to be removed, at the time of removal.
- Where the supply is of goods not to be removed, at the time the goods are made available to the recipient.
- Where the supply constitutes services, at the time the services are performed.

Where an invoice is issued or payment is received on or before the date that a return was submitted (covering the tax period in which the goods or services are deemed to be supplied as stated above), or the last day for submitting a return for that tax period, the normal time of supply rule will apply.

Example 9 – Time of supply for connected persons

Farmer A is a vendor registered under Category B. He rents a harvesting machine to his son during the peak season from January to March. His son collected the machine on 10 January 2009. Farmer A submits his return for February on 25 March 2009. If no payment was received, and no invoice was issued by 25 March 2009, the time of supply will be at the time that the goods were removed, as Farmer A and his son are connected persons. Farmer A will, therefore, have to account for the supply in his February 2009 return. If Farmer A issues an invoice for the rental on or before 25 March 2009, the normal time of supply rules apply, in which case, Farmer A will declare the VAT on the supply in the return ending April 2009.

5.5.2 Progressive, successive and periodic supplies

Where goods are supplied under a rental agreement or services are supplied where provision is made for periodic payments, they are deemed to be supplied successively. The time of supply is deemed to take place on the earlier of the date when payment is due or is received. Some examples are office or car rentals, maintenance or management contracts and cleaning services.

Where goods are supplied periodically or progressively and the agreement provides for the consideration to be paid in instalments, or according to the progress made in relation to the supply, the time of supply is the earliest of the date when payment is due or is received, or any invoice relating to the payment is issued. An example is an agreement whereby goods are to be supplied monthly over a stated period at an agreed price.

Where goods or services are supplied directly in the construction, repair, improvement, erection, manufacture, assembly or alteration of goods and the agreement provides for the consideration to become due and payable in instalments or periodically in relation to the progress made, the time of supply is the earliest of the date when payment is due or is received, or any invoice relating to the payment is issued.

Example 10 – Progressive supplies (construction)

Joe's Construction is registered for VAT under Category C tax period (monthly) and enters to a contract to build 50 residential units for a total contract price of R6 500 000 (VAT inclusive). The agreement provides for monthly progress payments to be made over a period of 12 months. At the end of January 2009 and February 2009, the work certified as completed by the appointed Project Manager was 10% and 23% respectively. Joe issued two tax invoices as follows:

Invoice 1357 - 31 January 2009	R650 000 (10% of R6 500 000)
Invoice 1358 - 28 February 2009	R845 000 (23% of R6 500 000 less R650 000 already invoiced)

As the goods are deemed to be supplied progressively, Joe will not account for the full contract price at the time the agreement is entered into. Joe will account for VAT of R79 824.56 ($14/114 \times R650\ 000$) in his January 2009 return and R103 771.93 ($14/114 \times R845\ 000$) in his February 2009 return.

5.5.3 Instalment credit agreement (ICA)

Where goods are supplied under an ICA, the supply is deemed to take place the earlier of the time the goods are delivered or any payment of the consideration is received by the supplier. Goods supplied under an ICA are not regarded as being supplied successively as discussed in **paragraph 5.5.2** above.

5.5.4 Fixed property

Goods consisting of fixed property or any real right therein are deemed to be supplied upon registration of transfer of the property in a deeds registry, or the date upon which any payment is made in respect of the consideration (whichever occurs first). Note that a "deposit" is not considered to be "any payment" until the seller is able to apply that payment as consideration for the supply. Similarly, where the payment is held in a trust by an estate agent or attorney, it does not constitute payment made, as the seller cannot apply the amount against the outstanding debt at that time. *Also refer to the [VAT 409 - Guide for Fixed Property and Construction](#).*

5.5.5 Fringe benefits

Where the cash equivalent of the benefit is required to be included in the remuneration of the employee who has received a benefit or advantage in terms of the 4th Schedule to the Income Tax Act, the time of supply is the end of the month in which such benefit is required to be included as remuneration. Where the cash equivalent is not required to be included monthly or weekly in the amount of remuneration, the time of supply is the last day of assessment of the employee in terms of the said Act.

5.6 VALUE OF SUPPLY

Where a price is charged for goods or services, the consideration for the supply will normally be equal to the amount of money which is payable. The consideration for a supply is represented by the value plus the VAT charged. Where the consideration is not in money, the consideration will be the open market value thereof. Note that the open market value includes the VAT element. Specific value of supply rules apply to certain transactions. Some examples follow in *paragraphs 5.6.1 to 5.6.5* below.

5.6.1 Connected persons

The normal value of supply rules also apply to connected persons, however, the consideration in money for a supply will be equal to the open market value in cases where the following conditions are met–

- the supply is for **no consideration** or for a **consideration which is below the open market value**;
- the recipient **does not acquire the goods or services wholly in the course of conducting an enterprise**; and
- the recipient **would not have been entitled to a full input deduction** on the goods or services acquired, had the open market value been charged on the supply.

5.6.2 Instalment credit agreement (ICA)

The consideration in money is deemed to be the cash value of the supply. The cash value includes the cost of acquisition of the goods and VAT. The cash value is normally the amount which is capitalised to the cost of an asset, for example the purchase price, import duties, transportation, installation costs, and any other costs directly attributable to bringing the asset to the location and condition necessary for it to be used as intended. The cash value does not include the cost of providing credit (that is, interest or finance charges).

5.6.3 Commercial accommodation

The supply of commercial accommodation is a taxable supply. Commercial accommodation includes board or lodging supplied together with domestic goods or services (for example, meals, laundry services, the use of a telephone) in a house, flat, apartment, room, hotel, guest house etc. The total receipts for the supply of the commercial accommodation must exceed R60 000 for a period of 12 months before the activity will fall within the definition of an “enterprise” as defined. For example, a guest house which does not supply (or is not likely to supply) accommodation together with domestic goods and services in excess of the R60 000 threshold in a 12-month consecutive period, will not be able to register as a VAT vendor. Commercial accommodation excludes the letting or hiring of a dwelling which constitutes the place of residence of a natural person or the supply of employee housing, both of which are exempt supplies. *Refer to **Chapter 6** for more details.*

Where a person stays in an establishment which provides commercial accommodation for an unbroken period of more than 28 days, only 60% of the all-inclusive charge for the accommodation and the domestic goods and services is subject to VAT at the standard rate. Where a person stays for a period less than 28 days, the full amount charged is subject to the VAT at the standard rate. Any domestic goods or services which are charged separately and are not included in the all-inclusive tariff for the accommodation, are also taxed in full at the standard rate. *Refer to the [VAT 411 - Guide for Entertainment Accommodation and Catering](#) for more information in this regard.*

5.6.4 Barter transactions

In barter transactions, goods or services are exchanged for other goods and/or services. Payment may also be partly in money, and partly in goods and/or services exchanged. Where payment is in money, the consideration for the supply will be the amount of money. To the extent that payment is not in money, the consideration is the open market value (OMV) of goods and/or services **received**.

Example 11 – Barter transaction

Farmer A and Farmer B are both VAT vendors. Farmer A supplies 10 cattle (OMV = R200 each) to Farmer B. In exchange, Farmer B supplies Farmer A with 1 horse (OMV = R1 000), and a cash payment of R1 000. The VAT effect is shown as follows:

<u>Farmer A</u>		<u>Farmer B</u>	
	R		R
<u>Output tax:</u> (On the cattle supplied)		<u>Output tax:</u> (On the horse supplied)	
Money received as payment	1 000	Money received as payment	Nil
OMV of horse received as payment	1 000	OMV of cattle received as payment	2 000
Total consideration received	<u>2 000</u>	Total consideration received	<u>2 000</u>
VAT (14/114 x R2 000)	<u>245.61</u>	VAT (14/114 x R2 000)	<u>245.61</u>
<u>Input Tax:</u> (On the horse acquired)		<u>Input Tax :</u> (On the cattle acquired)	
Input tax (14/114 x R1 000)	<u>R122.80</u>	Input tax (14/114 x R2 000)	<u>R245.61</u>

Input tax is allowed on goods or services acquired for making taxable supplies. As cash (“money” as defined), is neither goods nor services, Farmer A is only entitled to deduct input tax on the OMV of the goods acquired (that is, the horse). However, Farmer B acquired only goods and no cash.

5.6.5 Fringe benefits

The consideration in money is deemed to be the cash equivalent of the benefit granted to the employee as determined in the 7th Schedule to the Income Tax Act. Where the benefit consists of a right to use a motor vehicle, the consideration is determined in terms of [Regulation No. 2835 dated 22 November 1991](#).

Example 12 – Motor vehicle supplied as a fringe benefit

David’s Wholesalers (a vendor registered under Category B tax period) purchases a “motor car” for R114 000 (including VAT of R14 000) on 1 March 2011. David’s Wholesalers is not entitled to deduct an input tax credit on the acquisition of the “motor car” as it is a prohibited deduction. An employee of David’s Wholesalers (who is paid monthly) is granted the right to use the motor car with effect from 1 March 2011, and David’s Wholesalers bears the full cost of maintaining the vehicle.

David’s Wholesalers must account for output tax on the supply of the fringe benefit as follows:

- Step 1** Consideration in money = determined value of the motor car x 0,003 (0,3%)
= (R114 000 - R14 000) x 0,003 = R300
- Step 2** The amount of output tax payable **per month** will be = R300 x 14/114 = **R36.84**
- Step 3** The first tax period covers the months of March 2011 and April 2011 and output tax on the fringe benefit must be declared in Field 12 of the VAT 201 return and paid on 25 May 2011 and for every tax period thereafter as follows:
R36.84 x 2 months = **R73.68**

Note that where the input tax on acquisition of the vehicle was allowed (for example, a bakkie) the consideration in money is calculated by applying a factor of 0,006 (0,6%) instead of 0,003 (0,3%).

Where the employee bears the full cost of the repairs and maintenance, and receives no compensation, the consideration as determined above must be reduced by the lesser of R85 or the consideration for the fringe benefit determined monthly.

CHAPTER 6

EXEMPT SUPPLIES

6.1 INTRODUCTION

As discussed in **paragraph 5.1**, the definition of “enterprise” is an **activity based test** which is applied to determine whether certain supplies are taxable or not. Exempt supplies are supplies of goods or services where VAT is not chargeable at either the standard rate or the zero rate and will not form part of taxable turnover. If a person makes only exempt supplies, that person cannot register as a vendor or charge VAT on those supplies. Accordingly, any VAT incurred to make exempt supplies may not be deducted as input tax.

Some examples of exempt supplies include –

- financial services (such as, interest earned for the provision of credit, life insurance, the services of benefit funds such as medical schemes, provident, pension and retirement annuity funds);
- donated goods or services sold by non-profit bodies (such as, religious and welfare organisations);
- residential accommodation in a dwelling (but not holiday accommodation);
- passenger transport in South Africa by taxi, bus, or train;
- educational services provided by recognised educational institutions such as, primary and secondary schools, technical colleges, or universities which have been approved as public benefit organisations (PBOs) in terms of section 30(3) of the Income Tax Act, 1962, or an organisation which has been approved by the Commissioner as being exempt under section 10(1)(cA)(i) of that Act; and
- childcare services provided at crèches and after-school care centres.

Note that generally the liability to register for VAT does not depend on the status of the organisation itself, but rather on the type of supplies made. There is, however, an exception which is applied in the case of public authorities. The term “public authority” is defined in the VAT Act and refers to government departments and certain other non-business public entities listed in the Public Finance Management Act, 1999 (the PFMA). Public authorities are generally not liable to register for VAT and therefore any charges for supplies by these entities will not be taxable. (*Refer to **paragraph 6.8** for more details*).

6.2 LETTING AND SUB-LETTING OF DWELLINGS

VAT is not levied on the rent charged by a lessor to a lessee for the supply of a dwelling under a lease agreement. This rule also applies to employee housing supplied by an employer, whether a rental is charged or not. A “dwelling” is basically defined as a building or a part of a building which is used, or intended to be used, as the residence of a natural person, and includes any fixtures and fittings enjoyed with the supply of the dwelling. The definition excludes the supply of “commercial accommodation”. *Refer to **paragraph 5.6.3***.

Where a number of residential dwelling units are let to a person who in turn sub-lets them to other persons, as long as the nature of the supply under both the main lease and the sub-leases constitutes the supply of a “dwelling” (or dwellings), the exemption in terms of section 12(c) of the Act will apply. However, if the nature of the supply under the sub-lease is different from the main lease, for example if one of the dwellings is let as office premises, the exemption will not apply and VAT must be levied in respect of the office premises.

6.3 PASSENGER TRANSPORT (ROAD AND RAIL)

The supply of public transport by road or rail is exempt from VAT if the transportation –

- is between two places within the RSA;
- is of fare-paying passengers and their personal effects; and
- is supplied in the course of a transport business in a vehicle operated by the supplier of the transportation service or a person acting as the supplier’s agent.

The following points should also be noted in regard to exempt passenger transportation:

- A charge or fee levied for a game-viewing drive does not fall within the ambit of this exemption.
- The transportation of goods does not fall within the exemption, except to the extent that it relates to the transportation of the personal effects and baggage accompanying the fare-paying passenger.
- Transportation of passengers by air and sea constitutes a standard-rated taxable supply and does not fall within the exemption.
- Where an international transportation service is supplied, the zero rate will apply instead of the exemption. Refer to **paragraph 5.3.7**.

6.4 FIXED PROPERTY SITUATED OUTSIDE THE REPUBLIC

The supply of land (together with any improvements) by way of sale or letting is exempt from VAT if the land is situated outside the RSA.

6.5 EDUCATIONAL AND CHILDCARE SERVICES

The supply of educational services by the following entities is exempt from VAT:

- All State schools or schools registered under the **South African Schools Act, 1996** or a further education and training institution registered under the **Further Education and Training Act, 1998**.
- Universities, universities of technologies (previously known as technikons), colleges and other institutions providing higher education which are registered under the **Higher Education Act, 1997**.
- Institutions which are approved Public Benefit Organisations (PBOs) in terms of section 30 of the Income Tax Act which supply any of the following –
 - adult basic education and training (ABET);
 - education and training of religious or social workers ;
 - educating and training of persons with permanent physical or mental impairment; or
 - bridging courses to indigent persons to enable them to enter a higher education institution.

Before 1 March 2002, crèches and after-school care centres were treated as exempt educational institutions, and thus exempt from VAT registration. However, from 1 March 2002 crèches and after-school care centres are specifically exempt from VAT in terms of section 12(j) of the VAT Act.

Example 13 – Crèche and after-school care

Mrs B runs a crèche and an after-school care centre. She charges R1 000 per month for each of the 120 children which are enrolled at the centre. Her monthly expenses amount to R57 000, of which R7 000 is VAT.

Annual Income (R1 000 x 120)	R120 000 x 12 = R1 440 000
Annual expenses (including VAT)	R57000 x 12 = R 684 000

Mrs B will not register as a vendor even though her annual income is in excess of the R1 million threshold. This is because she is providing an exempt service of caring for children in a crèche. As Mrs B may not register for VAT, the R7 000 VAT incurred cannot be deducted as input tax, and consequently, the amount will form part of the business costs of running the facility.

6.6 FINANCIAL SERVICES

Some examples of financial services which will normally be exempt are –

- the exchange of currency – for example, the rand value given for dollars is exempt, but any fee charged for the exchange service will be standard-rated;
- equity or participatory securities – for example, the sale of an interest in a close corporation, the creation and selling of company shares; and the sale of a share in a unit portfolio of a unit trust scheme;
- the provision of credit under an agreement – for example, the amount payable (that is, interest) for the provision of a home loan or an overdraft on a cheque account; and the finance charges on an instalment credit agreement;
- premiums payable on long term insurance policies – for example, life policies, sinking fund policies or disability policies; and
- the buying or selling of derivatives – for example, options, futures and interest-rate swaps.

From 1 April 1995 all fees, commissions, merchant's discount and similar fee-based charges relating to financial services, became subject to VAT. Banks and other suppliers of financial services must apportion their input tax where goods or services acquired cannot be directly and wholly attributed to either taxable or exempt supplies. Refer to **paragraph 7.4** for more details.

Where the financial service is supplied to a non-resident who is not in the country at the time that the service is rendered, the zero rate will apply instead of the exemption.

6.7 DONATED GOODS AND SERVICES

The supply by an association not for gain or a welfare organisation of any goods or services which it receives as a donation is an exempt supply. The exemption also applies in a case where the organisation sells goods which it has manufactured if at least 80% of the value of the supply consists of donated goods or services.

Associations not for gain and welfare organisations do not declare output tax on any donations received by them in the furtherance of their stated aims and objectives. However, the organisation will be liable for output tax if any so-called "donation" is conditional upon some form of reciprocity in the form of a supply of goods or services (identifiable direct valuable benefit) by the association to –

- the "donor"; or
- to a relative or other connected person in relation to the donor.

In such cases, the payment received is viewed as being consideration for a taxable supply made by the organisation.

For further information, refer to [VAT 414 - Guide for Associations not for Gain and Welfare Organisations](#).

Example 14 – Supply of donated goods by an association not for gain

Mr Charity donates his old clothes to a church as well as some off-cuts of wood from his carpentry business (which will be made into chairs by the organisation). The clothes and chairs will be sold at the church's annual bazaar. The church is registered for VAT because in addition to its religious and fundraising activities, it also conducts business activities which involves the purchase and sale of goods where the annual value of supplies exceeds the compulsory VAT registration threshold of R1 million.

The VAT implications of the supplies made at the annual church bazaar are as follows:

- Even though the church is registered for VAT, the sale of the clothes by the church will be an exempt supply. Therefore, no input tax may be deducted in making these supplies.
- The sale of the manufactured chairs will also be exempt if at least 80% of the value of the materials used in making the chairs consists of donated goods and services. Once again, no input tax may be deducted in respect of making or selling the chairs. However, if the value of the wood constituted 70% of the value and the other 30% of the value is made up of the cost of glue, nails, paint, fabric, rubber stoppers, transport and other taxable inputs, the supply would be taxable at the standard rate (as the church is a vendor). In such a case, input tax could be deducted on the goods or services from vendors which were acquired in order to manufacture and sell the chairs, but not on the wood which was received as a donation.
- If any other goods which the church purchased were sold at the bazaar, those supplies would be taxable at the standard rate, and input tax could be deducted on the VAT incurred on those purchases.
- Where goods or services were acquired to make both taxable and exempt supplies at the bazaar, a reasonable portion of the VAT incurred may be deducted.
- The activities associated with the church's religious activities, for example, efforts to promote the faith and holding church services for its members are not "enterprise" activities. They constitute non-taxable supplies made for no consideration and are outside the scope of VAT.

6.8 PUBLIC AUTHORITIES

As mentioned in **paragraph 6.1** when applying the "enterprise" test in respect of the supplies made by a "public authority", special rules apply. Government departments are generally not liable to register for VAT, unless they are specifically notified by the Minister of Finance (the Minister) to do so. This means that, as final consumers, the VAT incurred on capital and operating expenses is regarded as a cost to the department. The VAT Act was amended with effect from 1 April 2005, to make it clear that national and provincial public entities listed in Parts A and C of Schedule 3 to the PFMA will also be treated on the same basis as departments, as they carry on activities which are either similar to those carried out by government departments and/or they are funded mainly by Government.

The amendments to the VAT Act in this regard had widespread implications for departments and non-business public entities, which had registered for VAT as well as for those which should have registered, but did not.

The major implications of these amendments can be summarised briefly as follows:

- *Liability to register*

Generally, national and provincial government departments (listed in Schedules 1, 2 and 3 of the Public Service Act, 1994) and public entities listed in Schedules 3A and 3C to the PFMA (public authorities) are not enterprises. They will therefore not register as VAT vendors and will not make any taxable supplies, unless specifically notified by the Minister to register for VAT. Constitutional institutions listed in Schedule 1 to the PFMA are excluded from qualifying as an enterprise and will therefore never be liable to register for VAT. Therefore, as a general rule, where a public authority or constitutional institution charges an amount for any goods or services supplied, that supply will not be a taxable supply and VAT will not be charged.

- *Public authorities and public entities which are regarded as enterprises*

Where a public authority is specifically notified by the Minister to register for VAT, it will be a “designated entity” and will for all intents and purposes be regarded as a normal business for VAT purposes to the extent that it conducts commercial activities. Designated entities essentially carry out work which would otherwise be done by government, but compete with other vendors in the economy. The funding that these entities receive is treated on the same basis as the consideration received by other vendors for making the same or similar taxable supplies.

Payments to designated entities are therefore taxable at the standard rate.¹⁶ Some examples of designated entities include–

- major public entities listed in Schedule 2 of the PFMA;
- national or provincial government business enterprises listed in Parts B or D of Schedule 3 to the PFMA;
- entities that are party to Public Private Partnerships (PPP’s); and
- welfare organisations.

- *Deregistration of public authorities*

Departments and other public entities which no longer qualified as enterprises were required to deregister for VAT. Relief from the output tax which would otherwise have been payable upon deregistration was provided for in the Act.

- *Skills Development Levies (SDL)*

As Sector Education Training Authorities (SETAs) were also required to deregister, SETA grants are no longer regarded as being inclusive of VAT at the standard rate. The law was amended to introduce a provision to zero rate the receipt of SETA grants with effect from 1 April 2005. It follows that vendors will no longer be allowed to deduct input tax on any SDL payments made from April 2005 onwards.

- *Grants and transfer payments*

The term “grant” replaced the term “transfer payment”. To qualify as a grant, the payment must not be in respect of an actual supply of goods by the recipient to the public authority making the payment. In this regard, reference is made to the prescribed procurement procedures applied by public authorities and municipalities (previously known as local authorities). The term “procurement” normally refers to supplies paid for under the budget headings “Current payments” or “Payments for capital assets”. However, it should be noted that this “procurement test” is not the only manner in which a payment may be excluded from qualifying as a “grant”.

Where the payment appears to be a grant, but is in fact consideration for a supply which falls outside of the normal procurement procedures or budget headings applied by that public or local authority, the supply must attract VAT in accordance with the normal VAT rules. The following examples illustrate the point:

- Where petty cash payments are made for supplies where a formal procurement process is not required to be followed.
- Where funds are made available to vendors under contractual conditions involving a supply of goods or services in return for the payment.

For more information on this topic, refer to [VAT News 25](#) and [26](#) as well as [Interpretation Note No. 39: VAT treatment of public authorities, grants and transfer payments](#).

¹⁶ Unless the deemed supply is by a welfare organisation, in which case the zero rate applies.

CHAPTER 7

INPUT TAX

7.1 WHAT WILL QUALIFY AS INPUT TAX

Generally, the VAT charged by a vendor to another vendor on any goods or services acquired for the business will qualify as input tax in the hands of the recipient. It does not matter if the goods or services are acquired for the purposes of consumption or use by the business itself, or for the purposes of making a supply to another person. It is important that input tax is only deducted insofar as the supplies are used for the purposes of making **taxable supplies** in the course or furtherance of the **enterprise**.

Input tax may not be deducted where goods or services are acquired for **private purposes, exempt supplies or other non-taxable purposes**. Refer to **Chapter 6** for examples of exempt supplies or to section 12 of the VAT Act for a complete list.

To qualify as input tax, **three requirements** must be met, namely –

- a) the goods or services supplied must be acquired by the vendor wholly or partly for consumption, use or supply in the course of making taxable supplies; and
- b) VAT at the standard rate must have been charged on the taxable supply (or “second-hand goods” must have been acquired under a non-taxable supply and paid for by the purchaser - refer to **paragraph 7.4** for more details); and
- c) the **appropriate documentation**¹⁷ must be held by the vendor, as follows:
 - o Standard-rated supplies – a valid tax invoice.
 - o Second-hand goods bought under a non-taxable supply – sufficient records must be maintained by the vendor deducting the input tax as per form [VAT 264](#) and section 20(8) of the Act. (Refer to also **paragraph 7.4**);
 - o Importation of goods – a customs bill of entry for example, the SAD 500 (and any additional SAD document that might be required) or other prescribed customs document, including the relevant proof of payment made to Customs.

The following are typical examples of expenses on which input tax may be deducted by a vendor for the purpose of making taxable supplies:

- Trading stock.
- Raw materials.
- Manufacturing overheads.
- Water, electricity and telephone charges.
- Administrative overheads such as audit and accounting fees.
- Marketing and advertising expenditure.
- Fixed assets such as office furniture and computer equipment.
- Fixed property.
- Delivery vehicles.
- Rental charges for office space or for factory premises.
- Production machinery and maintenance expenses.
- Profession fees such as those charged by architects and engineers.
- Fees charged by VAT registered consultants and other independent contractors (but not salaries and wages of employees).

¹⁷ Refer to [Interpretation Note No. 49: Documentary proof required to substantiate a vendor's entitlement to "input tax" or a deduction as contemplated in section 16\(2\)](#) issued on 29 July 2009.

7.2 WHEN AND HOW DO I DEDUCT INPUT TAX?

The input tax incurred for a supply is deducted in Part B of the VAT 201 return for the particular tax period. Most input tax deductions will be completed in fields 14, 14A, 15 and 15A of the VAT 201 return. Fields 14 and 14A of the return are where you will deduct the VAT incurred on any capital purchases and capital goods imported, respectively. Fields 15 and 15A must be completed to claim a deduction for any other goods or services used or consumed in the business in the course of making taxable supplies (including stock) and non-capital goods imported, respectively. *Refer also to Chapter 8.*

The correct tax period in which to make your deduction is determined by the time of supply rules as discussed in **Chapter 4**. This will generally be the date that you made any payment for the supply, or the date that the invoice was issued by the supplier (whichever occurs first).

Your input tax is set-off against your output tax liability on the VAT 201 return. The difference between these two amounts can either give rise to a refund, or a liability for that tax period. If your input tax more than offsets the total output tax liability on the VAT 201 return (and any other amounts that you may owe SARS for past tax periods or other taxes), or if you have no output tax for that particular tax period, the excess input tax will be refunded to you. Make sure that SARS has your correct banking details so that any refunds due to you can be paid safely and conveniently into your account without any unnecessary delays.

As mentioned above, it is very important that you ensure that you have the relevant tax invoices for each supply **before** deducting any input tax in respect of those supplies. If you have not yet received the required tax invoice for a particular supply, you may only deduct the input tax in the tax period that you obtain the document. However, to avoid forfeiting your claim, you must deduct the input tax within a period of five years from the date on which a tax invoice for that supply should have been issued (that is, within 21 days from the date of supply).

7.3 HOW MUCH INPUT TAX CAN I DEDUCT?

In **paragraph 7.2** above we dealt with **when and how** you deduct your input tax, but you also need to consider **how much** of the VAT incurred you can deduct in a particular tax period.

The following factors have an effect on **how much** input tax you may deduct:

- The **accounting basis** on which you are registered and any special rules applicable for the particular supply (*refer to Chapter 4 for details*).
- Whether the specific inputs are **disallowed** or are **limited** in any way (*refer to paragraphs 7.4 and 7.5 below*).
- The **extent** to which the supply will be **used for taxable supplies** (*refer to paragraph 7.4 below*).

In order not to disadvantage the **second-hand goods** market or to distort market prices, the VAT Act allows vendors under certain circumstances to deduct an input tax credit on second-hand goods acquired from non-vendors where no VAT is actually payable to the supplier. This is known as a **notional or deemed input tax credit**.

The **conditions** under which a deemed or notional input tax credit may be deducted are:

- The goods must be “second-hand goods” as defined in the VAT Act.
- The supply may not be a taxable supply (for example, if the goods are purchased from a non-vendor).
- The supplier must be a South African resident and the goods supplied must be situated in RSA.
- The purchaser must have made payment for the supply, or at least made part payment as input tax is only allowed to the extent that payment has been made.
- The prescribed records must be kept (*refer to Chapter 15*).

The notional input tax is calculated by multiplying the tax fraction (presently 14/114) by the lesser of the consideration paid or the open market value (OMV). Where the OMV is less than the consideration paid, the OMV will be used to calculate the notional input tax deduction.

Example 15 – Limitation of notional input tax to the extent of payment of the consideration

A second-hand dealer buys a used fridge from a non-vendor for R600 for resale. He pays the person R400 immediately and the balance of R200 in the next tax period.

Input tax is calculated as follows:		R
Deduct in Tax period 1 – R400 x 14/114	=	49.12
Deduct in Tax period 2 – R200 x 14/114	=	<u>24.56</u>
Total	=	<u>73.68</u>

In the case of the supply of second-hand goods being “fixed property” which is not subject to VAT, the input tax is limited to the transfer duty payable¹⁸ if the property was acquired on or before 9 January 2012. The input tax in such cases may only be deducted once the time of supply for VAT purposes has occurred, and only after the transfer duty has actually been paid to SARS. With effect from 10 January 2012 the law was amended so that the input tax in such cases is no longer limited to the transfer duty payable. A vendor’s entitlement to deduct input tax therefore no longer depends on whether the transfer duty has been paid to SARS or not. However, it is still a requirement that before any input tax can be deducted, the time of supply for VAT purposes must have occurred. Furthermore, as with other second-hand goods, the input tax is limited to the extent that the consideration for the property has been paid to the seller.

Example 16 – Limitation of notional input tax to the amount of transfer duty payable

Devco CC, a property developing enterprise buys vacant land for R50 000 on 1 December 2010 from a non-vendor, on which it intends to develop houses. Devco CC pays the full purchase price on registration of the property into its name. Since the sale of the land is not a taxable supply for VAT purposes, Devco CC must pay transfer duty at the rate applicable at the time – in this case 8% of R50 000 = R4 000.

Therefore input tax = R50 000 x 14/114 = **R6 140.35, but limited to R4 000 (actual transfer duty paid).**

Note that Devco CC would **not** be entitled to deduct the input tax of R2 140.35 which was previously denied as a result of the amendment to the law in this regard on 10 January 2012, as the property was acquired on 1 December 2010 which was **before** the law was amended. Had Devco CC acquired the land for enterprise purposes on or after 10 January 2012, the full amount of R6 140.35 would be deductible as input tax.

7.4 APPORTIONMENT**7.4.1 Introduction**

Generally, the full amount of VAT incurred on goods and services acquired or imported by a vendor for the purposes of making taxable supplies may be deducted as input tax. However, where goods or services are imported or purchased locally for taxable and other non-taxable purposes (mixed purposes), only a portion of the input tax may be deducted. Therefore, when goods and services are not acquired exclusively for taxable supplies, you will be required to determine the part that relates to taxable supplies and only deduct input tax to that extent.

7.4.2 Direct attribution vs apportionment

Before attempting to apportion an expense, the first step is to determine if the expense can be **directly attributed**. Direct attribution means that you will be required to **attribute** the VAT expense according to the intended purpose for which it will be used.

¹⁸ In a case where the fixed property constituted shares in a share block company which was subject to stamp duty before the repeal of the Stamp Duties Act on 1 April 2009, the input tax would have been limited to the stamp duty payable.

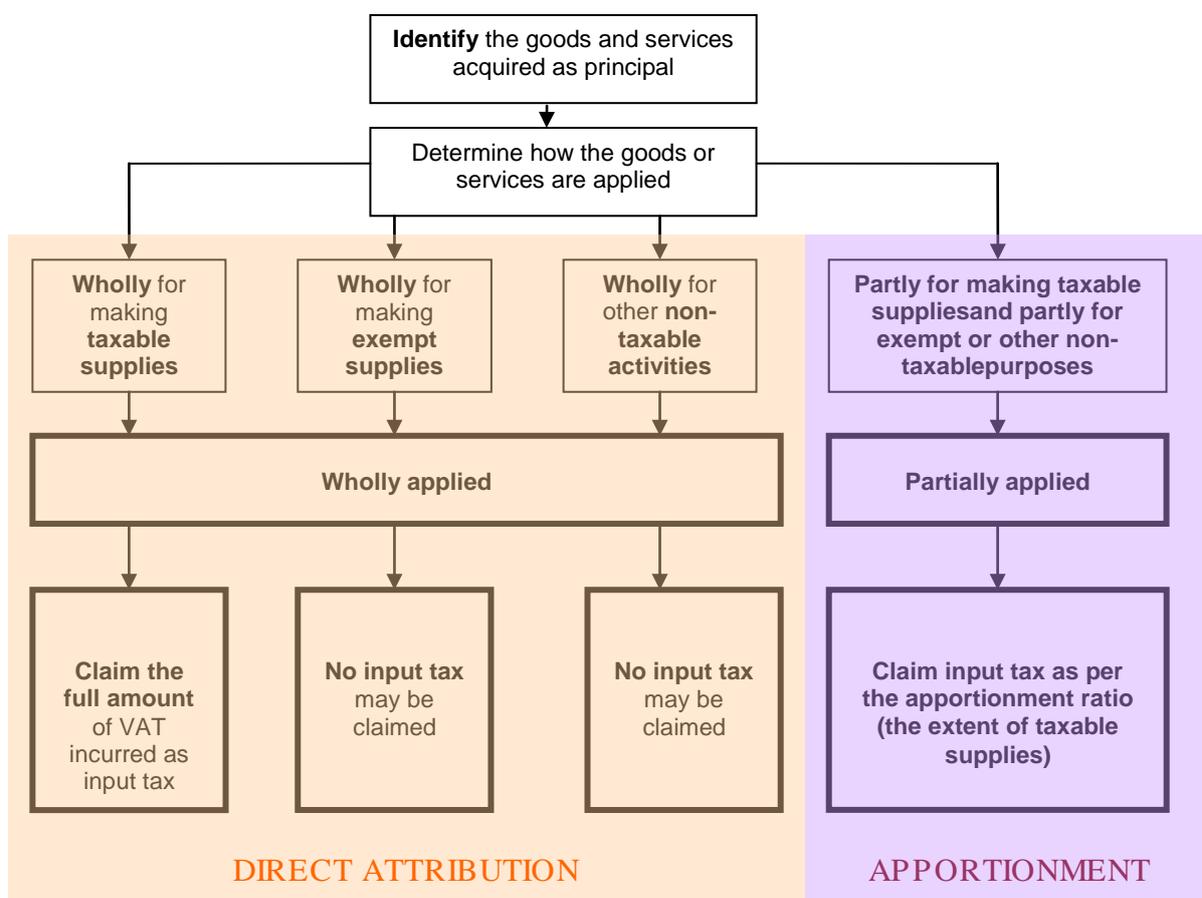
Direct attribution means that the expense is incurred either:

- wholly for making taxable supplies, in which case input tax can be deducted in full; or
- wholly for making exempt supplies or other non-taxable purposes, in which case no input tax can be deducted.

It is only when the expense cannot be directly attributed as above because it relates to both taxable and exempt supplies or other non-taxable purposes, that the expense must be apportioned. Once it is clear that the expense must be apportioned, the next step is to calculate the proportion of input tax which may be deducted. This is referred to as the apportionment ratio and is expressed as a percentage.

Although there may be a few exceptions, the most common expenses that need to be apportioned are the general overheads of the business. Other expenses are usually capable of being allocated directly to either taxable or non-taxable purposes by applying the concept of direct attribution.

The diagram below illustrates the concepts of direct attribution and apportionment:



As shown above, where the acquisition of goods or services can be identified as being **exclusively or wholly** for a particular purpose, the VAT incurred on those supplies can either be deducted in full (wholly for taxable supplies), or input tax may be not be deducted at all (exempt or other non-taxable purposes).

In applying the concept of direct attribution, the manner in which expenses are incurred and the actual application of the goods or services in the business must be examined. Where a vendor makes only taxable supplies, this is a simple exercise in that the VAT incurred will usually be exclusively for taxable supplies, and the input tax may then be deducted in full. However, where a vendor makes both taxable and exempt supplies, the first step is to determine whether the expense is directly attributable to taxable, exempt or other non-taxable supplies.

The process of applying direct attribution can be facilitated by the way in which an enterprise organises its different activities into divisions or business units. For example, where the individual divisions or business units have control over their own budgets and expenditure decisions, and if they are structured on the basis of exclusively taxable or exclusively exempt activities, it is much easier to apply direct attribution.

This concept is illustrated in **Examples 17 to 19** below.

Example 17 – Direct attribution: Taxable supplies

ABC Bank buys a building which costs R3 420 000 (including VAT). The building consists of units which are to be rented out to businesses as office space.

Although the bank makes both taxable and exempt supplies, the building was acquired exclusively for making taxable supplies (renting of property as offices). The expense is therefore **wholly attributable to making taxable supplies** the bank can deduct the full amount of VAT charged as input tax ($R3\ 420\ 000 \times 14/114 = R420\ 000$).

Example 18 – Direct attribution: Exempt supplies

Jabulani Transport runs a fleet of buses which are used exclusively to provide public passenger transport. It imports a new bus for the exclusive purpose of its local passenger transport business and pays an amount of R32 000 VAT on the value of the bus on importation.

Since the business of transporting fare-paying passengers in a bus is exempt, the VAT paid is **wholly attributable to making exempt supplies**. Jabulani Transport can therefore not deduct any input tax in respect of the VAT paid on the importation of the bus.

Example 19 – Direct attribution vs. apportionment

Scenario

ABC Municipality rents a two-storey building under a single lease agreement which houses its public passenger transport and municipal rates divisions. The divisions occupy the ground floor and first floor of the building respectively. The divisions use the same software which has been implemented across all of the municipality's different divisions and it gets a single telephone account each month for telephone usage from the building address. The municipality does not maintain separate cost accounts for each division.

Implications for ABC Municipality

The public passenger transport division makes only exempt supplies and the municipal rates division makes only taxable supplies. Although the divisions are organised along the lines of wholly taxable and wholly non-taxable activities, ABC Municipality has not arranged its contracts or implemented accounting methods to specifically allocate costs incurred by each division.

Furthermore –

- the lease agreement does not provide for separate rental amounts for each division;
- the cost of the computer software relates to the organisation as a whole; and
- the account for the use of telephones is not billed to each division separately.

It follows that ABC Municipality would have to apportion all of its input tax in relation to these expenses, since it cannot directly attribute the expenses wholly to taxable or wholly to exempt supplies.

Had ABC Municipality conducted its business in such a manner that separate lease agreements were entered into (or separate rental amounts specified in the lease), and separate telephone accounts been arranged for each division, it would have been able to directly attribute these expenses if it maintained appropriate cost centre accounts for the different divisions.

In either case, the input tax in relation to the expense for the computer software would have to be apportioned since the expense would have been incurred partly for taxable supplies, and partly for exempt supplies.

7.4.3 Apportionment methodology

Once it has been established that the expense cannot be directly attributed wholly to taxable purposes or wholly to exempt or other non-taxable purposes, the second level of enquiry is to determine the portion of input tax which may be deducted, **based on the extent to which the intended use is for taxable purposes.**

The apportionment ratio must be determined by using an **approved method** so that only a fair and reasonable proportion of input tax is deducted.¹⁹ **As from the November 2000 tax period, the only approved method which may be used to apportion input tax without specific prior written approval from the Commissioner is the turnover-based method.** This method applies by default in the absence of a specific ruling obtained by the vendor to use another method as there is usually a fairly good correlation between the turnover of a business and the resources (or inputs) which are employed to produce that turnover.

Note, however, that in circumstances where the turnover-based method is inappropriate because it produces an absurd result, proves impossible to use, or does not yield a fair approximation of the extent of taxable application of the enterprise's VAT-inclusive expenses, the vendor must approach SARS to obtain consensus on an alternative method which yields a more accurate result.

In deciding whether the turnover-based method is appropriate, the vendor must apply a common-sense approach which would be applied by a reasonable person. The method must therefore achieve a "fair and reasonable" result which is a proper reflection of the manner in which the vendor's resources (business inputs) are applied for making taxable and non-taxable supplies respectively. Although the term "fair and reasonable" will usually be perceived as a subjective concept, vendors applying the turnover-based method of apportionment should try to be objective and consider that the result must be perceived as "fair and reasonable" from both the vendor's perspective as well as SARS's perspective. The result must also be capable of being justified as appropriate in the vendor's circumstances. For example, where a company applies a method of apportionment and it undergoes a major restructuring, or the nature of the business changes so that the extent of taxable and non-taxable supplies are significantly different after that event, the vendor would be expected to approach SARS to confirm whether the current method is still appropriate.

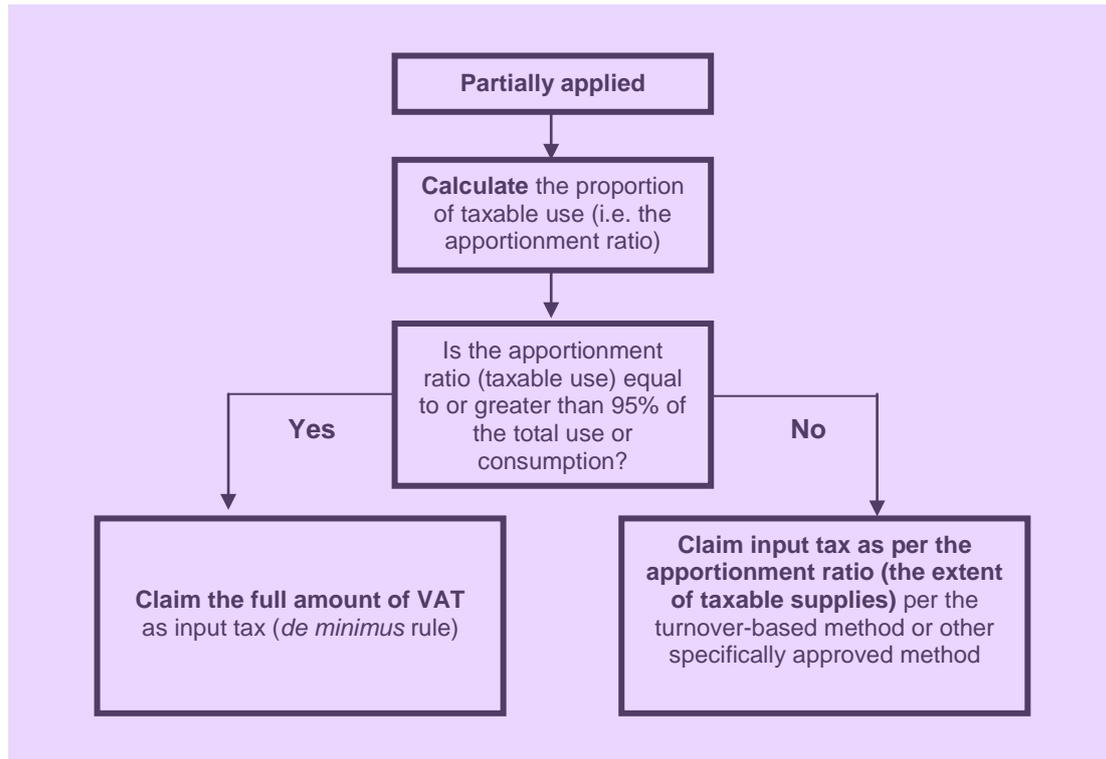
Alternatively, if it is clear from the outset that the apportionment method will not yield a fair and reasonable result after the changes, a ruling should be obtained to apply another method which results in more fair and reasonable proportion of input tax being deducted in the year that the changes occur, and in any subsequent years.

The apportionment percentage should not be excessive or extreme so that either a 0% or 100% result is achieved. If an extreme result is achieved, it is usually an indication that either the formula is inappropriate, or it is not being applied correctly. As an example to illustrate the point, it would generally be unreasonable to conclude that a vendor whose principal business is the financing of motor vehicle purchases under ICAs will achieve a *de minimis* apportionment percentage of 95% or more. Further, that the vendor would have some difficulty in explaining why the method is "fair and reasonable" where the norm for vendors in that industry ranges, for example, between 50% and 60%. Unless the vendor in that case can explain why its business is so significantly different from the industry norm that its position can be justified, SARS would consider applying a method which is used in that industry. Alternatively, another method which achieves a result more in line with the industry norm would be "fair and reasonable" in the circumstances.

Where it is found that a vendor has applied the turnover-based method without considering whether the method is appropriate or whether it yields an unfair or unreasonable result, SARS reserves the right to apply another method which is more appropriate. Where the use of the turnover-based method has resulted in a vendor deducting an unreasonable amount of input tax, the vendor will be liable to pay back the input tax that was incorrectly deducted, plus any penalty and interest thereon.

¹⁹ Refer to section 17(1) of the VAT Act.

Following on from the diagram on **page 44**, the second level of enquiry in establishing the apportionment percentage is illustrated in the diagram below.



The formula for the turnover-based method is as follows:

FORMULA: TURNOVER-BASED METHOD OF APPORTIONMENT

The formula set out below in respect of the turnover-based method of apportionment constitutes a binding general ruling issued in accordance with section 76P of the Income Tax Act, 1962 (Act No. 58 of 1962), read with section 41A of the VAT Act. This binding general ruling is **effective from 1 April 2007** and will remain in force until withdrawn or replaced.

$$\text{Formula: } y = \frac{a}{(a + b + c)} \times \frac{100}{1}$$

Where:

y = the apportionment ratio/percentage;

a = the value of all taxable supplies (including deemed taxable supplies) made during the period;

b = the value of all exempt supplies made during the period; and

c = the sum of any other amounts of income not included in "a" or "b" in the formula, which were received or which accrued during the period (whether in respect of a supply or not).

Notes:

1. The term "value" excludes any VAT component.
2. "c" in the formula will typically include items such as dividends and statutory fines (if any).
3. Exclude from the calculation the value of any capital goods or services supplied, unless supplied under a rental agreement/operating lease (that is, not a financial lease or instalment sale agreement).²⁰
4. Exclude from the calculation the value of any goods or services supplied where input tax on those goods or services was specifically denied.
5. The apportionment ratio/percentage should be rounded off to two decimal places.
6. Where the formula yields an apportionment ratio/percentage of 95% or more, the full amount of VAT incurred on mixed expenses may be deducted (referred to as the *de minimis* rule).

²⁰ Note that this exclusion will only apply where the vendor concerned does not usually supply capital items on a regular basis as a normal part of the business (whether those supplies are made under instalment credit agreement or under an ordinary sale).

Example 20 – Application of the turnover-based method of apportionment

ABC Bank buys computer software for R456 000 (including VAT). The bank's apportionment ratio is 60% based on the turnover-based apportionment method. The software is used to administer the supplies of all the taxable and exempt divisions of the bank. The software is therefore used by the bank partially in the course of making taxable supplies and partially for making exempt supplies. In this case, 60% of the VAT incurred on the acquisition of the computer software (R33 600) may be deducted as input tax.

Calculation: $[(R456\ 000 \times 14/114) \times 60\%] = R56\ 000 \times 60\% = R33\ 600$

Example 21 – Application of the *de minimis* rule

ABC Municipality buys computer software for R456 000 (including VAT). The apportionment ratio is determined to be 96% based on the turnover-based method of apportionment. The software is used to administer the supplies of all the taxable and exempt divisions of the municipality. The software is therefore used by the municipality partly in the course of making taxable supplies and partly for making exempt supplies. However, since the apportionment ratio is calculated as being 96%, the full amount of input tax may be deducted. This is because the *de minimis* rule (where the ratio is 95% or more) may be applied so that the entire expense is regarded as being in respect of making taxable supplies. As a result, the full amount of R56 000 VAT incurred on the acquisition of the computer software may be deducted as input tax.

Calculation: $[R456\ 000 \times 14/114] \times 100\% = R56\ 000$

The turnover-based method is generally calculated using information extracted from the financial statements of the vendor's enterprise. However, there could be a situation where the financial statements do not specify the information that is required for the purposes of calculating the turnover-based method (that is, the income statement reflects an amount of income that is made up of both taxable and exempt supplies). Vendors should therefore ensure that if this is the case, adequate accounting records are maintained to establish the actual value of taxable supplies, exempt supplies and other non-taxable receipts.

In practice, it is often difficult to accurately determine the apportionment percentage according to the turnover-based method in each and every tax period. It is therefore acceptable practice to calculate the estimated percentage using the turnover figures from the previous year's financial statements, and to apply that percentage for deducting input tax in each individual tax period for the current year.

An adjustment is made for any shortfall or overestimation in the percentage used for the calculation, when the audited financial statements for the current financial year are available, and the correct percentage can be calculated. It should, however, be noted that this is merely a practical administrative arrangement and does not have the effect of altering any legal provisions in the VAT Act. For example, it does not extend the five year period in terms of which the deduction of input tax or the claiming of refunds are limited as provided in sections 16(3) and 44 of the VAT Act.²¹ **This adjustment should be done within a period of three months after the financial year-end.** If the audited financial statements have not been completed within that time, an adjustment should be made using the year-end trial balance. This would be followed by a final adjustment when the audited financial statements for that year are eventually finalised.

For new enterprises with no past financial statements, an estimate based on expected taxable turnover according to the enterprise's business plan or sales/marketing forecasts could be used. As in the situation above, an adjustment would be required within three months of the financial year-end to account for any differences between the estimated apportionment percentage used, and the actual extent of taxable supplies as determined from the most recent financial statements.

²¹ Certain refunds which arise from practices which the Commissioner considers to be generally prevailing at the time are limited to a period of six months in terms of section 44(3)(a) and not five years.

Example 22 – Apportionment using the turnover-based method – comprehensive example

Company J owns a small double-storey building on the outskirts of a large city. The building is used for mixed purposes in that it has 4 shops on the ground floor (taxable supplies) and 2 large residential apartments on the top floor (exempt supplies).

Shops are rented for R12 000 each (plus VAT @ 14%) and apartments for R8 000 each per month (no VAT). There are no separate meters for water and electricity and these expenses are paid by Company J in terms of the lease agreements. An extract from the company’s annual financial statements for the 2009 financial year (tax year) indicates the following income and expenditure items:

**INCOME STATEMENT OF COMPANY J
FOR THE YEAR ENDING 28 FEBRUARY 2009**

Note 1: Amounts reflected on any financial statements should not include VAT.

	R
Income	
Rental of apartments (exempt)	192 000
Rental of shops (taxable)	576 000
Total income	768 000
Expenses	
New geysers for apartments	5 000
New glass for shop fronts	16 000
Painting of entire building	120 000
Electricity	48 000
Water	63 000
Telephone	6 000
Rates & taxes	100 000
Wages	35 000
Insurance on building	66 000
Total expenses	459 000
Net Profit	309 000

Note 2 : Percentage taxable supplies per turnover-based method:

$$\frac{576\,000}{768\,000} \times \frac{100}{1} = 75\%$$

VAT expense indicator

wholly for exempt
wholly for taxable
mixed
mixed
mixed
mixed
no VAT included
no VAT included
mixed

**VAT ACCOUNT OF COMPANY J
RECONCILIATION FOR THE YEAR ENDING 28 FEBRUARY 2009**

	R
Output tax	
Shop rental 576 000 x 14% (Note 1)	80 640
Input tax	
Glass – shop fronts 16 000 x 14% (Note 1)	(34 055)
Total mixed expenses (Note 3)	
303 000 x 14% = 42 420 x 75% (Note 2)	(31 815)
Net VAT paid 2009 (Notes 4 and 5)	46 585

Note 3: “Mixed” VAT expenses

120 000 Painting
+ 48 000 Electricity
+ 63 000 Water
+ 6 000 Telephone
+ 66 000 Insurance
303 000

Note 4: Adjustments

See Chapter 12 for details of the VAT implications and adjustments when the calculated apportionment percentage changes.

Note 5: Annual adjustment

Assuming that the vendor used an apportionment percentage of 72% during the year (based on the 2008 financial statements), the vendor would be entitled to claim an input tax adjustment in block 18 of the VAT 201 return for the shortfall of 3% calculated as follows: R42 420 x 3% = R1 272.60.

Similarly, had the 2008 financial statements indicated the percentage to be 80%, the vendor would be required to make an output tax adjustment in block 12 of the VAT 201 return as follows: : R42 420 x 5% = R2 121.00

7.5 DENIAL OF INPUT TAX

The VAT Act provides that input tax is denied on certain expenses even if they are incurred in the course of conducting an enterprise. These include –

- goods or services acquired for purposes of entertainment;
- membership fees or subscriptions of clubs, associations or societies of a sporting, social or recreational nature;
- the acquisition of a motor car by a vendor (who is not a motor car dealer or car rental enterprise); and
- goods or services acquired by medical schemes or benefit funds for the purposes of health insurance or benefit cover.

The specific details as well as the exceptions are detailed below under separate headings.

7.5.1 Entertainment

Common examples of entertainment expenses are –

- Food and other ingredients purchased in order to provide meals to staff, clients and business associates. This includes year-end lunches and parties, hiring of venues for those functions, as well as expenses incurred for the provision of free meals at workplace canteens or complimentary staff refreshments (e.g. tea, coffee and other beverages or snacks provided to staff);
- Business lunches, golf days, or other entertainment of customers and clients in restaurants, theatres, night clubs or sporting events;
- Goods and services acquired for providing employees with subsidised (or free) meals if the direct and indirect costs of providing those benefits and facilities are not covered by the price charged. For example, catering services, furniture, equipment and utensils used in kitchens, canteens and dining rooms;
- Beverages, meals, entertainment shows, amusements or other hospitality supplied to customers and clients at product launches and promotional events; and
- Capital goods such as hospitality boxes, holiday houses, yachts and private aircraft which are used for entertainment.

Exceptions:

In the following circumstances, input tax relating to entertainment expenses incurred may be deducted:

- Vendors in the business of supplying entertainment – the entertainment must, however, be supplied at a charge that at least covers all the costs of supplying the entertainment. This would include genuine client promotions, where the entertainment is of the same sort as that normally provided (for example, two milkshakes for the price of one).
- Personal subsistence for employees – only where the employees incur expenditure on personal subsistence on behalf of their employer and the actual expenditure is reimbursed. It is a condition that the employee **must be away on business from his/her normal place of work and residence for at least one night**. Where an allowance is paid to the employee for this expense, no input tax credit will be allowed.
- Meals or refreshments supplied in the following cases where the cost is included in the price of the ticket or entrance fee:
 - Operators of **taxable passenger transport services** (travel by air or sea) where meals or refreshments are supplied to passengers or crew.
 - Organisers of **seminars and similar events** that provide meals or refreshments to event participants;
- Sport or recreational facilities provided by municipalities.
- Expenses incurred by a welfare organisation in carrying on “welfare activities”.

Refer to the [VAT 411 - Guide for Entertainment, Accommodation and Catering](#) which deals with this topic in detail.

7.5.2 Club subscriptions of a recreational nature

Input tax may not be deducted on VAT paid in respect of any membership fees to sporting, recreational and private clubs. For example, membership of a country club, soccer supporters club, amateur boxing club, holiday club, tea club, stokvel savings club etc. However, the VAT incurred on subscriptions to magazines and trade journals which are related in a direct manner to the nature of the enterprise carried on by the vendor may be deducted as input tax. The VAT incurred on any fees or subscriptions to professional organisations may also be deducted to the extent that membership relates to taxable supplies made by the vendor. Examples of these professional organisations can be found in the financial services industry as well as the accounting, auditing, insurance and medical professions. Only if the employer has an obligation to bear the cost of the employee's subscription to the professional organisation in terms of an employment contract may the employer deduct the VAT incurred as input tax. This is also limited to the extent that the employer makes taxable supplies.

7.5.3 Motor cars

The term "motor car" is defined in the VAT Act and includes vehicles which –

- have three or more wheels;
- are normally used on public roads; and
- are constructed or adapted mainly or wholly for carrying passengers.

An input tax deduction may not be made by a vendor if a vehicle falling within the definition of a "motor car" is acquired, even if it is used in the course of making taxable supplies and regardless of the mode of acquisition. For example, the motor car could be acquired by way of outright purchase, importation, financial lease, operating rental agreement or casual hire.

An input tax credit may be deducted in respect of any vehicle which does not fall within the definition of a "motor car", provided that it is used for taxable supplies.

The term "**motor car**" **includes** the following vehicles (that is, where input tax will generally be denied):

- Double cab bakkies (LDVs).
- Ordinary sedan type passenger vehicles.
- Station wagons.
- Minibuses.
- Sport utility vehicles (SUVs).

The term "**motor car**" **excludes** the following vehicles (that is, input tax will generally be allowed if all the other requirements for input tax are met):

- Goods transportation trucks.
- Single cab light & heavy delivery vehicles.
- Motor cycles.
- Caravans.
- Ambulances, game viewing vehicles and hearses.
- Vehicles capable of accommodating more than 16 persons (for example, a bus).
- Vehicles with an unladen mass of 3500 kg or more.
- Special purpose vehicles constructed for purposes other than the carrying of passengers.
- Equipment such as bulldozers, graders, hysters, harvesters and tractors.

Hearses and game viewing vehicles are specifically excluded from the definition of "motor car", as these vehicles are generally not used for private purposes, but are applied exclusively in a particular type of business (that is, game viewing vehicles for game viewing, and hearses for the transport of deceased persons). From 24 January 2005 input tax on the acquisition of hearses and game viewing vehicles may be deducted where the vehicle is used exclusively for making taxable supplies. In such cases the vendor will be liable for output tax on the subsequent supply (sale) of the vehicle.

The VAT incurred on repairs, maintenance and the general running costs of a motor car such as insurance, tyres, engine oil and servicing may, however, be deducted as input tax if the vehicle is used exclusively in the course of making taxable supplies. This could also include modification and installation costs (for example, canopy modification or installation of a built in toolbox for a bakkie). Remember that petrol and diesel are zero-rated supplies, and therefore no input tax may be deducted on these running expenses.

There is an exception to the general rule regarding the non-deductible nature of any VAT incurred on the acquisition of a motor car which applies to motor car dealers and car rental enterprises. The reason for this is that in the case of these vendors, the motor cars are acquired for the specific and exclusive purpose of being supplied in the ordinary course of an enterprise which continuously or regularly makes taxable supplies of motor cars. *For more information in this regard, refer to the [VAT 420 - Guide for Motor Dealers](#).*

In applying the VAT principles in relation to motor cars when deciding whether input tax may be deducted or not, it should be noted that it is the purpose for which the vehicle was constructed or manufactured which is important, and not the actual use to which the vehicle is put. For example, in the mining and construction industries it is often submitted that to comply with certain safety regulations regarding the transport of workers, it has become necessary for contractors to make use of double cab LDVs instead of single cab bakkies. In this regard, the vendor's circumstances do not alter the fact that the double cab LDV still falls within the definition of "motor car" and that the input tax is still denied.

7.5.4 Medical schemes and benefit funds

Normally medical and other benefit schemes are not registered for VAT insofar as they provide medical benefits to their members. Consequently, input tax may not be deducted by these schemes in connection with any supply of goods or services to members, or in respect of any payment or request for reimbursement of expenses incurred by members covered under the scheme in respect of medical and dental services.

7.6 PETTY CASH PAYMENTS

Vendors are not obliged to obtain tax invoices for purchases not exceeding R50. These are usually expenses which are paid from petty cash for small items such as postage stamps, stationery, parking etc. Even though it is often the case that no tax invoice is required for petty cash purposes, you will need to keep the till slip, cash slip or sales docket with details of the purchase in a petty cash book or similar record in order to deduct the input tax. Make sure that the receipt indicates the amount of VAT charged, or alternatively, a statement that the amount charged includes VAT at the standard rate, otherwise any deduction in this regard may be disallowed.

7.7 PRE-INCORPORATION EXPENSES

Pre-incorporation expenses are costs which are incurred by a person in registering and setting up the infrastructure of a legal entity such as a company before the entity can legally be viewed as having come into existence, that is, a company which is not yet registered with the Companies and Intellectual Property Commission (CIPC).²²

Where a company reimburses a person for the costs and purchases incurred before it was formed, the company is deemed to be the recipient of the goods or services and to have paid any VAT component. Accordingly the company can deduct that VAT as input tax in the tax period during which the reimbursement is made.

This will only be allowed if the person –

- was reimbursed by the company for the **whole amount paid; and**
- acquired the goods or services for the purpose of an enterprise to be carried on by the company and has not used the goods or services for any other purpose.

²² Previously known as CIPRO (Companies and Intellectual Property Registration Office).

Input tax may not be deducted by the company where –

- the supply of the goods or services by the person to the company is a taxable supply, or is a supply of second-hand goods (not being a taxable supply);
- the goods or services were acquired more than six months before the date of incorporation; or
- the company does not hold sufficient records.

7.8 ADJUSTMENTS

In the course of trading, it may be necessary for a vendor to make certain adjustments, for example, if bad debts are written off, or there is a change in the extent of taxable use of assets. These adjustments may affect the input tax or output tax.

Refer to **Chapter 13** for more details.

7.9 MUNICIPALITIES (LOCAL AUTHORITIES)

Before 1 July 2006, many of the supplies made by municipalities were outside the scope of VAT, which means that they were not conducted in the course of the municipality's enterprise and not subject to VAT. Various amendments to the VAT Act came into effect on 1 July 2006 with regard to the VAT treatment of municipalities; the effect being that most of the supplies by municipalities are now subject to VAT at the standard rate (excluding exempt supplies listed in section 12 of the VAT Act – refer to also **Chapter 6**). Municipal property rates are now subject to VAT at the zero rate if charged separately from other goods or services supplied by the municipality. (Refer to **paragraph 5.3.11** and [VAT 419 - Guide for Municipalities](#).)

Another major effect is that municipalities will generally be able to deduct a greater proportion of input tax on “mixed” expenses than would have been the case before 1 July 2006. The effect is twofold because firstly, it will have an impact on the expenses which are directly attributable to taxable supplies, and secondly, the increase in the value of taxable supplies will ultimately increase the apportionment ratio.

[Regulation No. 270](#) which was published in Government Gazette No. 29741 on 28 March 2007 deals with various transitional arrangements and other aspects to do with the implementation of the amendments.

Two of the most important aspects addressed in the regulation are that –

- (a) Where during the transition period a municipality omits an amount of output tax in error on supplies which became taxable for the first time in their hands on or after 1 July 2006, the municipality may account for the output tax in a later tax period which is due for payment by no later than 25 July 2007; and
- (b) Municipalities are required to calculate their apportionment percentage according to the turnover-based method. The details of the various elements of the formula to be used are explained in the regulation.

For more information on municipalities, refer to the following documents on the [SARS website](#):

- [Regulation No. 270](#) and [Explanatory Note to Regulation R 270](#);
- [VAT 419 - Guide for Municipalities](#);
- [Binding General Ruling \(VAT\) No: 3](#) – dated 4 December 2007;
- [Binding General Ruling \(VAT\) No.4](#) – dated 21 January 2010;
- [Small Business Tax Amnesty and Amendment of Taxation Laws Act \(Act No. 9 of 2006\) \(Promulgation date 25 July 2006\) \(GG 29068\)](#);
- [Second Small Business Tax Amnesty and Amendment of Taxations Laws Act \(Act No. 10 of 2006\) \(Promulgation date 25 July 2006\) \(GG 29069\)](#); and
- [Explanatory memoranda](#) to the two Acts referred to above.

CHAPTER 8

CALCULATION AND SUBMISSION OF VAT

8.1 THE VAT 201 RETURN

The VAT 201 return is a **declaration** which you need to make at the end of every tax period if you are a vendor which reflects the VAT that you have charged on supplies, or for which you are liable to declare output tax, and the amounts that you believe you are entitled to deduct as input tax. The difference between these amounts for that specific tax period could either result in you having to pay the difference to SARS, or you would be entitled to a refund of the difference. If you are registered for VAT, you must submit your return by the due date, even if there is no payment required for the tax period.

Since 2007, SARS has been modernising and simplifying tax processes in line with international best practice. Some changes were made to the VAT 201 return during 2010 which were specifically aimed at addressing the declaration and payment of VAT in respect of the import and export of goods. Vendors are therefore required from 28 June 2010 to distinguish between the value of zero-rated exports and other zero-rated supplies on their returns. Input tax relating to the importation of goods must now also be indicated separately from other taxable purchases. In April 2011, SARS introduced a new VAT 201 return with additional fields for demographic information and for the signature of the person completing the return. The following changes therefore apply from April 2011:

- There is no more bulk mailing of VAT 201 returns, but a vendor will be allowed to request a VAT 201 return for the current period plus one future period.
- Vendors who submit their returns manually are required to request the VAT 201 return from any SARS branch office in person, in writing, or telephonically via the SARS Contact Centre on 0800 00 7277.
- Vendors who submit their returns and payments electronically will be required to request their VAT 201 returns electronically on eFiling so that they can be made available on their eFiling profile.
- The new VAT 201 return which is in landscape format has the same fields as the previous VAT 201 return with additional fields for demographic information and the declarant's signature.
- A unique 10-digit Payment Reference Number (PRN) will be pre-populated by SARS and will replace the previous 19-digit payment "reference number". The vendor must use this PRN when making VAT payments to SARS in order to link the actual payment to the payment declared on the VAT 201 return. Each VAT 201 return that the vendor requests from SARS will have its own unique PRN which will be used to track individual payments and queries for that tax period only.²³

Vendors that submit their returns manually are advised to request their VAT 201 returns at the beginning of the month in which the return is due for submission to ensure that these are received in enough time to meet the submission deadline. Note that SARS will not accept the following as valid returns:

- Old format VAT 201 returns;
- Copies of VAT 201 declarations printed from eFiling and used for manual submission;
- Manually submitted VAT 201 returns by vendors falling within Category C tax period;²⁴ and
- Photocopied returns.

Vendors are encouraged to register for eFiling, as this is a free and convenient internet-based service which allows a vendor to make submissions and electronic payments to SARS from the home or the office. Vendors who use eFiling have until the last working day of the month to make submissions and payments.

During 2012, there will be a number of other modernisation changes that will come into effect. Vendors are therefore advised to check the [SARS website](#) for the latest information. A new publication called "[VAT Connect](#)" has also been initiated which will be sent directly to vendors to keep them informed of any changes.

²³ VAT 201 returns relating to a period before May 2011 will still reflect the old format PRN.

²⁴ From 1 May 2011 all vendors registered on Category C must file their declarations electronically.

8.2 HOW TO CALCULATE YOUR VAT

The basic steps in calculating your VAT liability or refund and completing your return are as follows:

STEP 1: Determine the VAT charged (output tax)

The amount of VAT that you account for is based on whether you are registered to account for VAT on the invoice or payments basis.

- **Invoice basis** – Add all the sales invoices (cash and credit sales, including the VAT) issued by you in the tax period concerned, regardless of whether payment has been received or not. Also include the consideration for supplies not yet invoiced, where payment has already been made for the supply.
- **Payments basis** – Add all the actual payments (including the VAT) received by you in the tax period concerned, whether in respect of supplies made during that tax period, or in a past tax period.

Refer to **Chapter 4** for more details on the invoice and payments basis of accounting for VAT.

Fields 1 to 12 are the fields which must be completed in respect of any output tax which you are required to account for in the relevant tax period.

Field 13 reflects the total amount of output tax and is the sum of fields 4, 4A, 9, 11 and 12.

STEP 2: Calculate your input tax

As is the case with regard to output tax in **Step 1** above, the amount of input tax that you can deduct is based on whether you are registered to account for VAT on the invoice or payments basis.

- **Invoice basis** – Add all the tax invoices (cash and credit purchases, including the VAT) received by you in the tax period concerned, regardless of whether you have made payment to the supplier or not.
- **Payments basis** – Add all the actual payments that you have made in the tax period concerned to suppliers in respect of current or past taxable supplies received.

Remember also that whether you are registered on the invoice or payments basis of accounting, you cannot deduct input tax or any part thereof unless you are in possession of a valid tax invoice or other prescribed documents. For goods imported, you will need not only a valid bill of entry, but also proof that the VAT on importation has been paid to SARS. In addition, certain business inputs are subject to special rules and limitations, or may be specifically denied. Make separate lists for the VAT paid in respect of capital and other goods imported, as these amounts must be reflected separately on the return. Refer to **Chapter 4** for more details on the invoice and payments basis of accounting for VAT. Refer also to **Chapter 7** for more details on what amounts qualify as deductible input tax.

Fields 14 – 18 are the fields which must be completed in respect of any input tax which you believe you are entitled to deduct against the output tax liability in Field 13.

Field 19 reflects the total amount of input tax which you are entitled to deduct for the tax period concerned.

STEP 3: Pay the difference or claim your refund

Field 20 – Is the difference between your totals in fields 13 and 19. If the amount in field 13 is larger than the amount in field 19, the difference is VAT payable to SARS. If the amount in field 19 is larger than the amount in field 13, the difference is the VAT refundable to you.

Fields 21 – 33 are the fields where certain vendors will claim any eligible diesel purchases in terms of the Customs and Excise Act (diesel refund) as a deduction against any output tax liability for VAT. Most vendors will not complete this field as it only applies if you qualify and have registered for the diesel refund scheme.

Field 34 reflects the total amount of VAT payable/refundable and is calculated by adding fields 25, 29 and 33 together and subtracting the total from the value in field 20. If field 34 is less than zero, a refund is due to the you and if it is larger than zero, you need to pay that amount as it is due to SARS.

For more details on how to complete the individual fields on the return and to calculate your VAT, refer to the following documents on the [SARS website](#):

- [Step-by-Step Guide for the Completion of the VAT 201 Vendor declaration form \(Manual\)](#)
- [Step-by-Step Guide for the Completion of the VAT 201 Vendor declaration form \(eFiling\)](#)
- [FAQs - Handling of the new VAT 201 form](#)

8.3 SUBMITTING YOUR RETURN

Once you have completed the return, check it carefully as you can be held liable for penalties and interest if there are errors which lead to any shortfall in VAT paid. Sign the VAT return and send it with your cheque payment to any SARS branch office.²⁵ Alternatively, you may make use of SARS eFiling service to file and pay your VAT electronically. This may be done by registering for the eFiling service on www.sarsefiling.co.za.

Your return must be submitted together with payment of the VAT on or before the 25th day of the following month after the end of your tax period. Alternatively, if you make use of eFiling, you must make payment and submit your return by the last business day of the month after the end of your tax period. For example, if your tax period ends on 31 March, you have until 25 April to submit the return and payment (or until 30 April if using eFiling). Remember: if the due date for payment is on a Saturday, Sunday or public holiday, your return and payment must be submitted in enough time so that it is received by SARS by no later than the last working day before that date. Assuming that the due date for payment is on a Sunday, your return must reach SARS by the Friday (or the previous working/business day if the Friday is also a holiday). The date by which the return must be submitted to SARS is shown on the front of the return. Refer to **paragraph 8.4** below for the various payment options.

Section 28 prescribes the **due dates** for rendering VAT returns and making VAT payments. However, the Commissioner may also prescribe **the time** by which any payment made on any business day must be received, and if any payment is received after that time, it shall be deemed to have been made on the first business day following that day. Refer, for example, to the arrangements regarding cheque payments discussed in **paragraph 8.4.1** below.

8.4 HOW TO PAY YOUR VAT

8.4.1 Cheque payments

You can post a cheque with your return which must be made payable to the “South African Revenue Service” (written out in full) and be crossed “not negotiable/transferrable”. From 1 April 2010, cheque payments made using the abbreviation “SARS” are longer accepted. Do not under any circumstances send cash in the post.²⁶ Should you prefer to pay your VAT by post, you must ensure that your payment will be received by SARS on or before the 25th of the month after the end of the tax period, or the last preceding business day before the 25th of that month as mentioned in **paragraph 8.3** above.

Alternatively, you can drop your cheque in the drop boxes at any of the SARS offices. For ease of processing, vendors making manual submissions should ensure that the VAT 201 return is duly completed and signed, and that payment is included. From 1 May 2011, any payment and returns received via drop boxes at SARS offices are removed from the drop boxes by no later than 15:00. All payments and returns received by 15:00 are accounted for on the same day. If a cheque is received after 15:00, it is given the next day’s date. Also, with effect from 1 May 2011, SARS no longer accepts cheque payments exceeding R100 000 for VAT.²⁷

²⁵ The VAT 201 indicates the address of the correct scanning centre to which your VAT return must be sent.

²⁶ Postal orders and money orders are not accepted as valid forms of payment. Cash payments are also no longer accepted with effect from 1 April 2010.

²⁷ For operational reasons, cheque payments of VAT which exceeded this amount were, however, accepted up until 31 May 2011.

8.4.2 Payment by electronic funds transfer (EFT)

Where you make an electronic transfer of funds to SARS, you must ensure that the payment will reach SARS by the due date shown on the VAT 201 return (usually the 25th of the month). Please enquire from your bank whether "same day" transfers are made to SARS. If not, you must make the transfer earlier to ensure that it is in SARS bank account by the 25th of the month after the end of the tax period, or the last preceding business day before the 25th of that month as mentioned in **paragraph 8.3** above. Electronic transfers received in SARS' banking account after the due date will incur penalties and interest as a result of late payment. Should you have any further enquiries relating to these limits, please contact your bank.

(a) Debit orders

From 1 July 2011, all manual debit orders were discontinued. However, vendors registered on eFiling can continue paying by debit order but will be required to initiate a new debit order arrangement via eFiling.

(b) eFiling

All SARS business customers are able to subscribe to SARS' eFiling service to submit specific returns and payments electronically via the internet at no charge. By subscribing to eFiling, vendors are able to receive, complete and submit VAT returns and make payments via secure internet based facilities 24-hours a day. For more information about the SARS eFiling service and how to register, log on to www.sarsefiling.co.za. If you have any queries you can contact the SARS Contact Centre on **0800 00 7277** between 08h00 - 17h00 on weekdays. The eFiling support centre can also be reached via e-mail on eFilingAssist@sars.gov.za, or you can send a fax to (011) 602 5312.

(c) Internet banking

Where payment is made by using internet banking facilities or any other electronic transfer medium, the payment must be received in SARS' bank account on or before the 25th or last preceding business day (where applicable) and, such payment must accurately reflect your VAT reference number and the tax period for which the payment is being made. The bank payment details as set out in example 23 below must be furnished. Failure to provide these details will result in the payment not being credited to your account. You are responsible to arrange with your bank to effect "same-day online" transfers. Internet payments (Beneficiary ID) can be made using the electronic banking products of First National Bank (FNB), ABSA, Nedbank, Standard Bank, CITIBank, Investec and Mercantile Bank. In all instances it is imperative that the correct PRN is provided to ensure that tax payments are easily identified and correctly allocated by SARS.

8.4.3 Payments at various banks

You may choose to pay your VAT at any branch of the four major banks. Please make sure that your payment is made on or before the due date reflected on the VAT return. In order for your payment to be successfully processed the PRN as provided by SARS on the VAT 201 return and the appropriate beneficiary account ID are required. **Please note that you must still send your VAT 201 return to SARS for capturing even if you have made payment at the bank.**

Example 23 – The VAT payment reference number

The following is an example of the VAT PRN for VAT No. 4880124452 for the tax period ending June 2011:

PRN : 4880124452VC2011068
Beneficiary ID: SARS-VAT

Note: The above information is also pre-printed on your VAT return.

You must ensure that payment will reach SARS by the due date shown on the VAT return in whichever way you choose to effect payment. The onus is on you to ensure that payments are received in SARS' banking account on the due date. If the due date falls on a Saturday, Sunday or public holiday (that is, not a business day), it must be received by SARS on the **last business day before that date** as mentioned in **paragraph 8.3** above. SARS has emphasised that payments received late as a result of these changes would lead to penalties and interest being imposed. Therefore, to avoid these amounts from being levied, kindly adhere to the time frames for the submission of VAT returns and payments tabled below.

Payment method	Returns	Payment
Cheque	25 th	25 th
Payments at any of the four major banks	25 th	25 th
VAT201 DO debit order	25 th	Last business day
eFiling of return and payment via SARS eFiling	Last business day	Last business day
Electronic transfers (including internet banking)	25 th	25 th

8.5 PAYMENT LIMITS (EFT / eFILING / DEBIT ORDERS / BANK PAYMENTS)

The banks and the Payments Association of South Africa (PASA) have set payment limits on cheques, debit orders, ATM transactions and electronic payments. The limits are **R500 000** for a **debit order** and **R5 million** for **cheques** or credit payments through **EFT (electronic funds transfer)**. These measures are aimed at moving high-value payments to the South African Multiple Option Settlement system (SAMOS), operated through the South African Reserve Bank.

How these limits will affect you as a vendor:

- **Debit order payments** to SARS cannot exceed R500 000. Penalties and interest as a result of a late payment will be incurred if the debit order cannot be processed for whatever reason. SARS will discontinue all manual debit orders with effect from 1 July 2011 and no new debit order applications will be accepted. However, vendors registered on eFiling may continue paying by debit order provided that a new debit order arrangement via eFiling is initiated.
- **Cheque payments** to SARS may not exceed R100 000. Should you issue a cheque exceeding this amount, it will be returned to you and penalties and interest as a result of a late payment will be incurred.
- **EFT payments** in excess of R5 million must be cleared with your banker.
- **eFiling transactions** will not be affected by these rules as no limits are imposed.

Should your existing payment method exceed any of these limits, you must approach your bank timeously in order to effect an electronic transfer of funds to ensure that the full VAT payment can be made by the due date. For more information on payment rules and acceptable payment methods, please refer to the following documents which can be accessed on the [SARS website](#):

- [FIN-GP-02-G1 - SARS Payment Rules - Reference Guide](#)
- [FIN-GP-02-G1-FAQ1 - SARS Payment Rules - FAQ](#)
- [SARS Payment Rules leaflet - updated](#)
- [FIN-GP-L14 - Discontinuation of Debit orders for manually submitted VAT201 declarations - External Correspondence](#)

8.6 MANAGING YOUR PAYMENTS

On 26 September 2011, new features were introduced on the eFiling system to help vendors to meet their tax obligations as part of SARS' objective to modernise VAT for greater efficiency and improved customer service. The new features consist of a VAT payment allocation function and the introduction of a new format VAT Statement of Account (VATSA). The VAT payment allocation function enables vendors to allocate payments, to reallocate payments and to locate missing payments. These functions can be performed by vendors without requiring any intervention from SARS. Manual filers and those eFilers that require assistance can approach SARS for assistance in making these allocation adjustments at any SARS branch.

The VATSA is similar to the Employer Statement of Account (EMPSA) and will be issued by SARS as per the vendor's registered category on a regular basis. The VATSA contains information which will empower vendors to manage their VAT accounts by giving them insight into their transactions per tax period.

Vendors can request the VATSA through the following channels:

- eFiling
- SARS branch
- SARS Contact Centre

For more information, please refer to the [SARS website](#).

8.7 PENALTY AND INTEREST FOR LATE PAYMENT

If VAT is not paid to SARS by the due date for payment as set out in **paragraph 8.4**, a **penalty of 10%** of the outstanding amount of VAT will be levied. **Interest at the prevailing rate**, in terms of section 80 of the PFMA, will also be charged per month or part thereof on late payments. This is calculated from the first day of the month after the month in which payment was due, until the date that the outstanding amount has actually been paid. Interest is also charged on any late payment of additional tax which has been levied upon assessment.

Note that electronic payments are processed on the last business day of the month but the return must still be submitted as normal by the 25th day of the month. Where insufficient funds are available on the due date for payment, penalty and interest will be calculated accordingly.

Example 24 – Calculation of penalty and interest

Mr P is required to submit his VAT return and payment of R3 000 in respect of the May 2010 tax period by 25 June 2010. He only submits this return and payment on 3 July 2010. Penalty and interest (per month) is calculated as follows:

10% penalty on R3 000.00	R300.00
0,792% ²⁸ interest per month or part of a month	R23.76 (2 months x R23.76 = R47.52)

Therefore the total of penalty and interest payable will be **R347.52**

The VAT Act makes provision for penalty and interest in certain circumstances to be remitted or reduced. **A written request must be submitted (after you have paid the tax which is due) to the SARS office at which you are registered if you wish to have your case for the remittance of penalties and interest considered.** Note that the remission of **penalty and interest** will only be considered where **substantive reasons** are given for a late payment. This means that **properly motivated mitigating circumstances** must be submitted for consideration together with any evidence which supports your case for remission of penalty and/or interest. As all the relevant mitigating and aggravating factors must be considered by the Commissioner when making a decision in this regard, a failure to submit reasons will mean that there will be no basis upon which the Commissioner will be able to exercise any discretion in the matter.

Note also that the tests for remitting penalty and interest are different and may require different factors to be considered in each case. These factors may include, for example: the business and personal circumstances of the vendor; the compliance history and frequency of mistakes; the vendor's level of co-operation and willingness to take corrective action to ensure that late payments and non-payment of VAT are avoided in future; the level of negligence which is evident from the circumstances relating to the late or non-payment of VAT; and any evidence of an intention to evade the payment of VAT, or the intention to delay payment without good reason.

²⁸ This is 1/12th of the annual rate applicable at the time. The rate changes from time to time in terms of section 80 of the PFMA. In this example, the rate at the time was 9.5% per annum.

Some of these factors may be more relevant for considering the remission of penalty and others will be more relevant for considering whether the interest may be remitted. The mitigating circumstances and evidence which you submit to support your case should therefore demonstrate to the Commissioner's satisfaction that:

- in the case of **penalty**, there was no intention not to pay the VAT, or pay the VAT late; and
- in the case of **interest**, the circumstances which lead to the late payment or non-payment of VAT were beyond your control.

To the extent that the Commissioner is satisfied that the late payment was not due to an intent not to pay the tax or to postpone the payment of tax, the **penalty** may be remitted or reduced.

With effect from 1 April 2010 the Commissioner's discretion to remit **interest** was limited by the law so that it is now based solely on whether or not the interest was incurred as a result of circumstances beyond the vendor's control. An example of this is when a vendor's payment instruction could not be carried out by the vendor's bank in time because of a failure in the banking system. Before 1 April 2010, the factors which were considered included whether there was a loss to the fiscus, or if the vendor benefitted financially by not paying the VAT on time.

Where you encounter problems in your business such as a systems crash or where records are destroyed in a fire, and as a result you are not able to determine the exact VAT liability, or to pay the full amount of VAT on time, you should make a payment equal to the estimated amount of tax payable. When the tax liability is finally determined, any excess payment for the tax period concerned will be refunded, or the shortfall must be paid. Penalty and interest will be levied on any outstanding amount in such cases, but you may apply to have these remitted as discussed above. The application must include a description of the circumstances which the Commissioner should consider as being "exceptional" in the case at hand.

Refer to [Interpretation Note 61: Remission of interest in terms of section 39\(7\)\(a\)](#) issued on 29 March 2011 for more details in regard to the remission of penalty and interest. Note also that all general tax administration matters, including matters related to the levying and remission of penalty and interest and the payment of interest on refundable amounts, will be governed by the incoming Tax Administration Act once that legislation becomes law. The legislation is likely to be implemented during 2012.

8.8 REFUNDS

When your return results in an amount to be refunded, SARS should refund you within 21 business days.²⁹ Should the refund not be made within this time, interest at the prescribed rate is payable to you. However, the 21 business days interest-free period can be extended where SARS is unable to gain access to your records to verify the refundable amount. Also, a vendor is not entitled to be paid interest where there is a material difference between the refundable amount claimed, and the actual refundable amount (or liability). Refunds will only be paid out to you if you do not owe any amounts for Income Tax or PAYE or other taxes administered by the Commissioner. In such cases, debt equalisation will be applied to offset the amounts owing in respect of other taxes, and the balance (if any) will be refunded.

VAT refunds cannot be paid where SARS does not have your bank details, nor will any interest be paid on late refunds where you have not submitted your correct banking details.

With effect from 1 April 2009, only non-resident companies and resident companies that are part of the same group structure may request that VAT refunds be paid into a bank account of a nominated person. In the case of a "subsidiary company" or "holding company" as contemplated in the Companies Act, VAT refunds may be paid into the bank account of either the subsidiary company or holding company, on condition that SARS is indemnified against any loss which may occur. Due to concerns involving VAT refund fraud, the use of third party bank accounts will not be permitted in any other cases.

²⁹ Note that generally, any amount constituting "input tax" as defined in section 1 and any refund contemplated in section 44 must be claimed within a period of five years. However, certain amounts which may become refundable are limited to a period of six months if the Commissioner is satisfied that the VAT was accounted for in error as a result of a practice which was generally prevailing at the time.

Should you wish to nominate or use the banking account of another vendor, you must supply the necessary authority from the account holder (for example, company resolution) and provide indemnity to SARS against possible losses of amounts paid into such accounts on form VAT 119i. This form is available from SARS offices or the [SARS website](#).

SARS has also introduced a number of measures over the past few years specifically aimed at reducing the risk of VAT fraud. At the end of May 2011, a new sophisticated risk engine was introduced that applies objective risk criteria, including third party data to identify high risk VAT refund claims for further investigation and audit each month. As part of the new process, vendors selected for further verification of their refund claims are requested to submit documents in support of their declaration or to revise their declaration (submit a revised return where an error is suspected).

On 26 September 2011, SARS also implemented the Refund Dashboard which is a function that will enable you to view the reasons why your refunds may not have been paid out and what actions may be required of you. Only refund statuses from March 2011 will be displayed on the Refund Dashboard. The new function is available on eFiling for registered eFilers. Vendors who call the Contact Centre or go to a SARS branch to request information will be assisted by SARS agents who have access to the dashboard.

For more information on payment allocations and the Refund Dashboard, please refer to the following documents on the [SARS website](#):

- [VAT 201 - Payment Allocation Guide](#)
- [VAT Letter - VAT Payment Allocation function - 27 September 2011](#)
- [VAT Letter - Refund Dashboard - 27 September 2011](#)

8.9 CHANGE OF BANK DETAILS

The fraudulent changes to taxpayers' bank details remain one of the biggest risks that SARS has to deal with. It is SARS's responsibility to protect taxpayers from any fraudulent transactions on their SARS accounts emanating from within SARS. To prevent such risks, vendors should note that under no circumstances will SARS request a vendor's bank account details over the phone or accept bank account detail changes via facsimile, post, drop-box or e-mail.

A power of attorney appointing a person as the taxpayer's duly authorised agent will no longer be accepted for the changing of bank account details. Only changes through the following channels will be accepted:

- In person at any SARS branch. (This is the SARS preferred channel)
- Through the SARS eFiling channel if you are registered as an eFiler.

When visiting a SARS branch to change your bank account details, please ensure that you have the documents required as set out in the following documents which are available on the [SARS website](#):

- [AS-VAT-15 - Change of Bank Details for a Registered VAT Vendor – External Policy](#)
- [AS-GN-29-FAQ2 - Change of Bank Details - External FAQs](#)

CHAPTER 9

FARMING

This chapter focuses on a few of the VAT implications which are unique to farming enterprises.

9.1 TAX PERIODS

It is a common misconception that all farmers may be, or are required to be registered on Category D (six-monthly or bi-annual tax period). This is not true as this category is only available to fairly small scale farming enterprises.

Vendors who qualify for the Category D tax period must meet the following criteria:

- The enterprise must consist **solely of agricultural, pastoral or farming activities.**
- The total turnover from all farming activities must **not exceed R1.5 million per consecutive period of 12 months.**

A vendor may also qualify for Category D if a separately registered branch or division of the enterprise consists solely of agricultural, pastoral or farming activities, provided that the vendor's other enterprises, branches or divisions do not also consist of those same activities. Generally, vendors will want their six-monthly tax periods to coincide with their provisional tax period. For this reason, vendors who are sole proprietors will be allocated a tax period which ends at the end of February and August. Other legal entities may choose to end tax the period on any two other months which are six months apart (for example, March and September).

Should the value of taxable supplies exceed R1.5 million in any consecutive period of 12 months, the Commissioner will allocate either Category A or B tax period to the vendor (two-monthly tax period). If the value of taxable supplies exceeds R30 million per consecutive period of 12 months, the vendor will be obliged to pay over the VAT and submit monthly returns per Category C tax period. As from 1 May 2011 all vendors falling within Category C tax period must submit their returns in electronic format and make payments electronically via eFiling. Section 25 of the VAT Act requires a vendor who is a farmer to notify SARS once the total value of taxable supplies exceeds R1.5 million in a 12-month period.

9.2 STANDARD RATED SUPPLIES

Besides the normal standard rated supplies, farmers must remember that if any goods or services forming part of the farming enterprise are sold or exchanged for anything in return, VAT must be charged at the standard rate on the supply.

Some examples include –

- rental income from buildings let as shops and storage facilities, or land let for grazing and growing crops;
- insurance payouts received for loss or damage experienced in the enterprise (excluding any asset on which input tax was denied, for example, the family motor car or yacht);
- the sale of livestock;
- goods sold from farm stalls;
- exchange of goods or services with other farmers (barter transactions);
- the sale of property used in the farming enterprise, or any separate subdivision of the property. (*Refer to **paragraph 5.5** if sold as a going concern.*); and
- income from any other business activity carried on such as: the sale of any enterprise stock or assets; the sale or trade-in of old farming equipment, trucks, tractors and other farm vehicles; the sale of scrap, off-cuts etc.

Example 25 – Trading-in of old vehicles or equipment

Mr Farmer decides to purchase a new tractor for R114 000 (inc. VAT): He trades in one of his old tractors and receives R22 000 for it, which amount is set-off against the purchase price of the new tractor.

VAT 201 return for Mr Farmer

		R
Output tax: old tractor sold (field 4A)	R22 000 x 14/114 =	2 701.75
Less: Input tax: new tractor purchased (field 14)	R114 000 x 14/114 =	<u>(14 000.00)</u>
Net VAT		<u>(11 298.25)</u> Refund

9.3 ZERO-RATED SUPPLIES

To assist farmers with their cashflow, many of the products which are produced or consumed in the course of conducting a farming enterprise are zero-rated. Part A of Schedule 2 to the Act lists the types of supplies and the conditions under which a farming, agricultural or pastoral enterprise may purchase certain goods which they regularly need at the zero rate.

Some examples of these goods are –

- stock licks;
- fertiliser;
- seed;
- pesticide;
- remedies or medicines (but not in respect of other items charged such as syringes or vet's fees);
- animal, poultry, fish or game feed (this includes any vitamins, bone products or maize products); and
- plants – this includes trees, bulbs, roots, cuttings or similar plant products used for cultivation.

In order to be able to purchase the above goods at the zero rate, the following requirements must be met:

- The notice of VAT registration (VAT 103) must be presented to the supplier.
- The VAT 103 must contain a clause no.7 on it, confirming that the main business is a farming agricultural or pastoral enterprise.
- The VAT registration number of the purchaser must appear on the tax invoice.
- The goods supplied must be specified in Part A of Schedule 2 to the VAT Act.

If it is found by SARS that the above conditions have not been met, the supplies in question will be standard rated on assessment.

Note that **the zero rate will not apply** where –

- other goods or services not listed above are supplied to the agricultural industry, for example, it will not apply to the consultation fee charged by a vet to attend to a sick animal, nor would it apply to the goods or services acquired to install a new irrigation system on your farm; or
- the sale of the goods concerned are prohibited in terms of section 7*bis* of the Fertilisers, Farm Feed Agricultural Remedies Act, No. 36 of 1947, for example, the sale of a banned substance such as DDT.

Part B of Schedule 2 to the VAT Act lists the basic foodstuffs which are subject to the zero rate. Many of these products are sold by farming enterprises, for example, raw fruit and vegetables, maize, milk, eggs, beans, mealies etc. Please remember to show the total amount received in field 2 on your VAT return – failure to do so will result in unnecessary audits.

Farmers must supply their VAT registration numbers to co-operatives and abattoirs to which supplies are made so that the correct amount (including VAT) can be paid. Also remember that where a farmer receives a portion of the income from a harvest (crop sharing), VAT must be paid at the standard rate on that portion of the proceeds unless the supplies are zero-rated items in terms of Schedule 2 of the VAT Act as discussed above.

Refer to **Chapter 5** for more details regarding zero-rated supplies.

9.4 INPUT TAX

Generally, input tax may be deducted on all expenses incurred in carrying on a farming enterprise where VAT has been paid, but the costs in respect of the following may not be deducted:

- The purchase or rental of double-cab vehicles (4x4s), SUVs, sedan and sports cars, station wagons or mini vans, regardless of the fact that they may be used entirely for farming operations.
- Rations provided to employees (including any other costs in regard to providing the meals).
- Employee housing as well as any costs in respect of your own residence, for example, telephone accounts, maintenance of your own home or the home of an employee, electricity and water etc.
- Zero-rated purchases such as fertilizers, petrol, diesel, pesticides etc.

Refer to **Chapter 7** for more details in this regard.

9.5 DIESEL REFUNDS

Farming is a qualifying activity under the Diesel Refund Scheme. Most farming enterprises would therefore qualify to be registered for the available refund. To register for the scheme you need to complete and submit a form VAT 101D together with your application to be a VAT vendor, or once you are already registered for VAT. Refer also to **Chapter 2**.

Note that refunds under the Diesel Refund Scheme are merely processed by utilising the VAT administrative system. The concession is actually granted to certain qualifying purchasers in terms of the Customs and Excise Act. The diesel refunds are therefore offset against any VAT which may be payable for the tax period concerned, or alternatively, will increase any VAT refund if the input tax for the period exceeds the output tax liability.

Any diesel refund which is found to be incorrectly deducted will lead to a shortfall of VAT actually paid for the tax period. Penalty and interest will be levied on the shortfall. There may also be additional penalties and interest levied in terms of the Customs and Excise Act if you deduct any diesel refund to which you were not entitled.

For more details about the scheme, refer to the [AS-VAT-DR-03 - Quick Reference Guide to Diesel Biodiesel Refund](#).

Important Note

Make sure that you actually qualify for the diesel refund scheme before registering, as any incorrect refunds deducted would have to be paid back to SARS, together with penalty and interest (plus additional tax in the case of intentional misrepresentation or fraud).

CHAPTER 10

EXPORTS AND IMPORTS

10.1 EXPORTS

In order to determine the correct rate of VAT to be applied on the export of movable goods, it must first be determined whether the export of such goods will be a “**direct**” or an “**indirect**” export.

A **direct export** is where the supplying vendor (“the supplier”) consigns or delivers movable goods to a client at an address in an export country. The supplier is in control of the export and the zero rate of VAT will apply if the requirements stipulated in [Interpretation Note No. 30 \(Issue 2\)](#) dated 15 March 2006 have been met.

An **indirect export** is where the recipient from an export country removes or arranges for the removal and transport of movable goods purchased in the RSA to an address in an export country. In this case the supplier must levy VAT at the standard rate of 14%, and the recipient may claim a refund from the VAT Refund Administrator (Pty) Ltd (the VRA),³⁰ provided that the recipient is a “qualifying purchaser”.³¹ Refer to **paragraph 10.1.2** for further details. Indirect exports are regulated by the VAT Export Incentive Scheme (the Scheme) which came into effect on 16 November 1998. In terms of Part Two of the Scheme the supplier may, in certain circumstances, elect to supply movable goods to a qualifying purchaser at the zero rate. This option may only be elected where the supplier is able to **ensure** that the goods are delivered to a harbour or airport, which is a “designated commercial port” (refer to the list below), from where those goods will be exported by the qualifying purchaser. As the supplier will be held accountable if the conditions are not met, it is up to the supplier to decide whether to apply the zero rate as provided for in Part Two of the Scheme, or to apply the standard rate.

For both direct and indirect exports, the exportation must take place through one of the **43 designated commercial ports** listed in the table below.

Land Border Posts		International Airports	Harbours	Railway Stations
Country	Commercial port			
Zimbabwe	• Beit Bridge	<ul style="list-style-type: none"> • Bloemfontein • Cape Town • King Shaka (Durban) • OR Tambo (Johannesburg) • Gateway (Polokwane) • Lanseria • Kruger Mpumalanga • Pilansberg • Port Elizabeth • Upington 	<ul style="list-style-type: none"> • Cape Town • Durban • East London • Mossel Bay • Port Elizabeth • Port Ngqura • Richards Bay • Saldanha 	<ul style="list-style-type: none"> • Germiston • Golela • Johannesburg • Maseru Bridge • Mafikeng • Upington
Mozambique	• Lebombo			
Namibia	<ul style="list-style-type: none"> • Vioolsdrift • Nakop/Narogas 			
Botswana	<ul style="list-style-type: none"> • Ramatlabama • Skilpadshak • Groblers Bridge • Kopfontein 			
Lesotho	<ul style="list-style-type: none"> • Caledonspoort • Ficksburg Bridge • Maseru Bridge • Van Rooyenshek • Qacha'sNek 			
Swaziland	<ul style="list-style-type: none"> • Jeppes Reef • Mananga • Mahamba • Nerston • Golela • Oshoek 			

³⁰ A private company appointed by SARS on a tender basis to administer the VAT refund mechanism as provided for section 11(1)(a)(ii)(bb), read with paragraph (d) of the definition of “exported” in section 1 of the VAT Act.

³¹ This includes a non-resident, a tourist, a foreign enterprise and a foreign diplomat.

10.1.1 Direct Exports

To apply the zero rate the supplier must either –

- physically deliver the goods to the recipient at an address in an export country (“deliver”); or
- obtain the services of a cartage contractor who is contractually obliged to deliver the goods on behalf of the supplier to the recipient at an address in an export country (“consign”).

Where the supplier consigns the goods, the cartage contractor must be a registered vendor in the RSA whose main activity is the transportation of goods. Furthermore, the cartage contractor must invoice the supplier, being the person who is liable for payment of the full costs of the delivery.

The **documentary requirements** whether “consigned” or “delivered” by the supplier are –

- the supplier’s copy of the zero-rated tax invoice;
- the recipient’s order or a contract between both parties;
- export documentation as prescribed in terms of the Customs and Excise Act (for example, the SAD 500 and any additional SAD document that might be required); and
- proof of payment.

Proof that the movable goods have been received by the recipient in the export country is required where the supplier delivers the goods, or the consignment is by road. In addition, where a cartage contractor conveys the goods to the export country on behalf of the supplier, a copy of the relevant transport documentation, as well as proof that the supplier paid the transport costs, is required.

For more details refer to [Interpretation Note No. 30 \(Issue 2\): Documentary proof required on consignment or delivery of movable goods to a recipient at an address in an export country](#) dated 15 March 2006.

10.1.2 Indirect Exports

In the case of indirect exports, the supplier will charge VAT at the standard rate, unless the supplier has elected to apply the zero rate in terms of Part Two of the Scheme. Where VAT at 14% has been charged, the recipient may apply to the VRA for a VAT refund. The VRA has a presence at the OR Tambo (Johannesburg) and Cape Town International Airports, the Johannesburg Sandton office and the Cape Town Waterfront office.

Contact details for the VRA’s Head Office are as follows:

Postal address	E-mail addresses
The VAT Refund Administrator	General : info@taxrefunds.co.za
PO Box 107	Botswana : botswana@taxrefunds.co.za
OR Tambo (Johannesburg) International Airport	Swaziland : swaziland@taxrefunds.co.za
South Africa	Namibia : namibia@taxrefunds.co.za
1627	Other countries : generalqueries@taxrefunds.co.za
Physical address	Website : www.taxrefunds.co.za
Plot 206/1 High Road	Telephone : + 27 87 310 0200
Pomona, Kempton Park	Facsimile : + 27 86 503 9530

A **VAT refund** will only be considered where all of the following requirements are met:

- The purchaser must be a **qualifying purchaser**;
- The goods must be **exported within 90 days** from the date of the tax invoice;
- The VAT inclusive total of all **purchases exported at one time must exceed the minimum of R250**;
- The request for a refund, together with the relevant documentation, must be **received by the VRA within three months of date of export**; and
- The goods **must be exported through one of the 43 designated commercial ports** by the qualifying purchaser or the qualifying purchaser’s cartage contractor.

Where the qualifying purchaser exports the goods, the goods must first be declared to a SARS Customs official at that exit point, before approaching the VRA for a refund. Where the goods are not kept as hand luggage, the tax invoice must be endorsed by the SARS Customs official and be presented to the VRA for a refund, or handed in to a SARS Customs official before departure from the RSA. If the goods are exported via a designated commercial port where the VRA is not present, the qualifying purchaser must apply in writing to the VRA for a refund. This also applies in the case where the qualifying purchaser's cartage contractor exports the goods.

The **documentary requirements** in these circumstances are –

- the original tax invoice;
- a copy of the qualifying purchaser's passport, or in the case of a foreign enterprise, a copy of the trading license, as well as the letter of authorisation and a copy of the authorised person's passport;
- a copy of the invoice issued to the qualifying purchaser by his cartage contractor (where applicable); and
- proof that the qualifying purchaser declared the importation of the goods for customs purposes in the export country.

Where the tax invoice has been endorsed at a designated commercial port where the VRA is not present, the following **additional documentation** must be submitted:

- A copy of the export documentation prescribed under the Customs and Excise Act, bearing an original RSA Customs and Excise endorsement; and
- A copy of the relevant transport documentation indicating that the goods were transported to an export country, for example an airway bill for an export by air or a bill of lading for an export by sea.

Where the supplier **elects to apply the zero rate as provided in Part Two of the Scheme**, the following documentation must be kept by the supplier:

- The supplier's copy of the zero-rated tax invoice.
- The recipient's order or a contract between both parties.
- The applicable prescribed export documentation obtained from the recipient (for example, the SAD 500 and any additional SAD document that might be required).
- A copy of the airway bill for an export by air or the bill of lading for an export by sea.
- A copy of the qualifying purchaser's passport or trading license.
- Proof of payment.

In this case, as with direct exports, the supplier accepts the responsibility of obtaining the documentary proof of export. Note that the supplier may not elect to apply the zero rate as provided in Part Two of the Scheme where the goods are to be exported by road or rail.

Refer to the VAT Export Incentive Scheme on the [SARS website](#) or the VRA pamphlet which is available from all of South Africa's International Airports or the VRA's website www.taxrefunds.co.za.

10.1.3 Second-hand goods

(a) Direct exports

The zero rate cannot apply where second-hand goods are acquired by the supplier and then exported after a notional input tax credit has been deducted thereon (*refer to Chapter 7*).

In such a case, the supplier must levy VAT equal to the notional input tax deduction originally deducted on the acquisition of the goods now being exported. The VAT declared by the supplier is not refundable to the recipient whether the amount was included in the final price of the goods charged to the recipient or not.

Note that where second-hand goods are acquired from a registered vendor under a taxable supply, notional input tax is not deducted, but rather a normal input tax deduction supported by a tax invoice. In this case the normal rules apply and the subsequent export of those second-hand goods is subject to VAT at the zero rate.

(b) Indirect exports

VAT is levied at the standard rate on the indirect export of goods. Where second-hand movable goods are exported and a notional input tax deduction has been made by the supplier on the acquisition of those goods, the VRA may not refund the amount of the notional input tax deduction to the qualifying purchaser. For example, where a non-resident purchases a second-hand motor vehicle from a motor car dealer in South Africa, that non-resident will only be able to claim a refund to the extent that the VAT charged exceeds the amount of notional input tax deducted by the motor car dealer.

Where the second-hand goods exported were originally acquired from another registered vendor and a normal input tax credit supported by a tax invoice was claimed, the full amount of VAT charged may be refunded (less the VRA's commission). The reason is that the supplier would not have deducted a notional input tax credit on the acquisition on those second-hand goods.

Example 26 – Second-hand goods - direct export

Smart Gallery buys a second-hand painting for R11 400 from a non-vendor and claims a notional input tax deduction of R1 400 ($R11\ 400 \times 14/114$). Smart Gallery sells the painting to Mr M from Botswana for R15 786 and delivers it to Mr M's address in Botswana. The locally advertised price is R16 400 (including R2 014 VAT).

The calculation of the selling price is as follows:	R
Selling price excluding VAT	14 386
Add back notional input tax deducted	<u>1 400</u>
Selling price including VAT	<u>15 786</u>

VAT levied at the standard rate is equal to the amount of notional input tax deducted. The tax invoice issued to Mr M must either show that VAT of R1 400 has been charged or that the selling price includes VAT of R1 400. Mr M is not entitled to a refund of the R1 400 VAT charged.

Example 27 – Second-hand goods - indirect export

Assume the same facts in Example 27, except that Mr M collects the painting in the RSA and exports it himself. (Price advertised: R16 400 including R2 014 VAT). To assist Mr M to obtain his refund from the VRA, at the time of export, the tax invoice should show the following:

	R
Selling Price excluding VAT	14 386
VAT @ 14%	2 014
Selling price including VAT	16 400

VAT Refund

Total VAT	2 014
<u>Less</u> notional input tax deducted	<u>(1 400)</u>
VAT refundable	<u>614</u>

The tax invoice must contain a full and proper description of the goods supplied (indicating, where applicable, that the goods are second-hand goods). A refund will not be authorised if these details are not clearly indicated on the face of the tax invoice. Only the VAT in excess of the notional input tax deducted can be refunded by the VRA, (that is, R614 less the VRA's commission), whereas the portion of the VAT equal to the notional input tax credit deducted (R1 400) is not refundable.

10.2 IMPORTATION OF GOODS

10.2.1 General

If goods are purchased from a supplier in another country, VAT is payable when the goods are imported into the RSA. Goods may only be imported through one of the 43 designated commercial ports (as listed under **paragraph 10.1** above). The VAT paid to SARS Customs on goods imported by a vendor in the course of making taxable supplies may be deducted as input tax.

The vendor, or the vendor's agent must hold a valid bill of entry (SARS Customs declaration form SAD 500 and any additional SAD document that might be required), together with the receipt for the VAT paid on the importation of goods which are for use in making taxable supplies before being able to deduct input tax thereon. (Refer to **Chapter 7**). SARS Customs officers control the entry of goods into the country, and goods will not be released before they have been declared and any customs and/or excise duties (if any) and VAT has been paid thereon.

Regular importers or their clearing agents can enquire about obtaining access to a deferment facility at SARS Customs branch offices. This facility allows the importer a credit facility with SARS for a specified amount for the customs duty and VAT payable on the importation of goods into the RSA. (The facility is, however, not allowed for the payment of excise duty or fuel levy.) Application for this facility can be done by completing forms DA650 (registration particulars of applicant) and DA652 (agreement between the applicant and SARS). A bank guarantee or surety must be lodged, the amount of which will be based on the inherent risks of the business and type of goods to be imported.

10.2.2 Imports from countries other than Botswana, Lesotho, Namibia or Swaziland (the BLNS countries)

The BLNS countries together with the RSA form the Southern African Customs Union (SACU). The effect thereof is that where goods are imported from **outside the SACU region**, (that is, from non-BLNS countries), VAT, customs duty and in some cases, excise duty is payable on the goods being imported, and is calculated as follows:

$$\begin{array}{l}
 \text{Purchase price of goods/Customs value (CV)} \\
 + \text{ Customs duty (and Excise duty) if applicable (non-rebated duties)} \\
 + \text{ 10\% of the customs value} \\
 \hline
 = \text{ Added Tax Value (ATV)} \quad ^{32}
 \end{array}$$

$$\text{ATV} \times 14\% = \text{VAT payable}$$

Example 28 – Importation of goods

Mr C imports art from Uganda for which he pays R5 000. Upon being cleared for home consumption, VAT will be calculated as follows:

	R	
Purchase price/customs value	5 000	(CV)
+ Customs duty, for example, 25%	1 250	
+ 10% upliftment	500	
Value for importation & VAT purposes	<u>6 750</u>	(ATV)
VAT at 14%	<u>945</u>	

³² The 10% upliftment is not an amount payable to SARS, but represents an amount in lieu of transport and insurance costs which is used for calculating the ATV. The 10% upliftment does not apply in the case of imports from BLNS countries.

10.2.3 Imports from the BLNS countries

Where goods are imported from **within the SACU region** (that is, from BLNS countries) no customs duties are applicable and the 10% upliftment in value is not applied provided that the goods have their origin in a BLNS country. However, VAT is still payable on the importation of the goods into the RSA at the standard rate (currently 14%) on the value for customs purposes, unless the goods are specifically exempt from VAT on importation. The ATV in the case of imports from BLNS countries will therefore not include any customs duties or the 10% upliftment in the customs value as shown in *paragraph 10.2.2* above.

10.2.4 Exemptions

No VAT is payable on the importation of certain goods. Some examples are –

- goods imported for diplomatic and other foreign representatives;
- goods imported by immigrants, tourists, returning residents and other passengers for personal use for example –
 - visitor's personal effects, sporting and recreational equipment which will be used during their stay in the RSA;
 - returning resident's personal effects, sporting and recreational equipment exported for use abroad and subsequently re-imported;
 - wine, cigarettes, perfume and certain other new or used goods, being gifts or items for personal use (within certain limits) imported as part of a passenger's baggage;
 - household furniture and other household effects imported by natural persons for own use on change of permanent residence to the RSA;
- goods which are re-imported in certain circumstances;
- goods temporarily admitted for processing, repair, cleaning, reconditioning or for the manufacture of goods exclusively for export;
- goods temporarily admitted subject to exportation in the same state; and
- goods donated by a non-resident to an association not for gain, public authority or municipality which are not for resale, and which are imported for use exclusively for educational or welfare purposes; educational, medical or scientific research; or for issue to indigent persons at no charge.

Where goods are temporarily imported into the RSA or removed in transit through the RSA, a provisional payment or bond will normally be required to secure the amount of VAT payable on importation. This is to ensure that the risk of the goods remaining in the RSA without the payment of the applicable VAT is covered. When the goods leave the country, the provisional payment may be refunded, or the bond released.

10.3 IMPORTATION OF SERVICES

VAT at the standard rate is levied on the supply of imported services. The recipient of the imported services is responsible for the declaration and payment of the VAT.

10.3.1 What is an imported service?

An imported service is –

- a supply of services;
- made by a supplier who is not a resident of the RSA, or who carries on a business outside the RSA;
- to a recipient who is a resident of the RSA;
- to the extent that such services are not used in the course of making taxable supplies.

Examples of when a resident recipient has to account for VAT on imported services are where the recipient –

- is not a registered vendor;
- is a vendor, but the services are wholly or partly for making exempt supplies; and
- is a vendor, but the services are applied for private purposes.

Example 29 – Imported services definition

Mr Lee (a VAT vendor), manufactures ball valves and pays a technical license fee to a UK-based company. The service is accordingly supplied by a supplier who is not a resident of the RSA to a resident (Mr Lee). However, as the services are wholly consumed in the course of making taxable supplies (that is, manufacturing and selling ball valves), the services do not fall within the definition of “imported services”. Consequently, VAT would not be payable by Mr Lee on the services supplied by the non-resident.

Example 30 – Imported services (digital goods / electronic products)

Mrs Bookworm orders an electronic version of the latest “Harry Potter” novel from Virtual Books (an internet based business located in Belgium) and downloads the document on her personal computer. She pays €60 for this service on her credit card. Digital products such as electronic books are regarded internationally as “services” and not “goods”. Therefore, as these “services” are supplied by a non-resident (Virtual Books, Belgium) to a recipient who is resident in the RSA (Mrs Bookworm) for non-taxable (private) purposes, VAT will be payable by Mrs Bookworm in this situation. Assuming that €60 was equivalent to R600 on the date of the importation, the VAT payable would be calculated as follows:

VAT payable = R600 x 14% = **R84.00**

10.3.2 When must VAT on imported services be paid?

In the case of vendors, with effect from 1 February 2011 the VAT on imported services must be declared in field 12 of the VAT 201 return and paid together with any other VAT which may be due for the tax period concerned. Non-vendors will continue to apply the previous arrangements by submitting form VAT 215 together with the payment within 30 days of importing the services.

10.3.3 Time of supply

The time of supply of imported services is the earlier of the time that an invoice is issued by the supplier or the recipient, or any payment is made by the recipient in respect of that supply.

10.3.4 Value of supply

The taxable value of the supply is the **greater of** the consideration or the open market value.

Example 31 – Value of imported service

Mrs Sisulu strikes it lucky one day by winning R1 000 000 on the Lotto. She decides to start her own spaza shop and registers for VAT in this regard. She also decides to spend some of her winnings on extending her small home by building on two extra rooms and a “granny cottage”. She obtains several quotes from vendors in the RSA and discovers that it will cost her about R100 000 plus R14 000 VAT (R57 000 labour and R57 000 for materials) to carry out the alterations. She decides that the cost is excessive and instead asks her brother Andries who has a construction business in Botswana (in which country he is resident) to carry out the job when he comes to visit over the weekends. Over a period of 6 months, Mrs Sisulu spends R43 000 (including VAT) on building materials which Andries uses to carry out the required work. Mrs Sisulu also pays Andries R25 000 at the end of the job for his time and effort.

Continued overleaf ...

Example 31 (continued)

In this case, building services are supplied by Andries (a non-resident) to Mrs Sisulu (a resident of the RSA). Even though Mrs Sisulu is a vendor, the services are imported by her for non-taxable (private) purposes and are not in any way connected with the taxable supplies made in the course or furtherance of her enterprise (the spaza shop).

The services will therefore fall within the definition of “imported services” and VAT will be payable on the greater of:

- the amount of consideration payable to Andries, namely R25 000; or
- the open market value of R50 000 (that is, R57 000 less R7 000 VAT).

Therefore, the VAT payable = R50 000 x 14% = **R7 000**

Notes:

1. If Andries was paid an additional amount to construct a building where the spaza shop enterprise is carried on, no VAT would be payable in this regard as Mrs Sisulu would have acquired those services for making taxable supplies.
2. Mrs Sisulu cannot deduct input tax on the VAT paid for the building materials as these goods are not acquired for making taxable supplies.

10.3.5 Exemptions

VAT is not payable on imported services where –

- the supply would be exempt from VAT or zero-rated if supplied in the RSA; or
- the supply of the service is subject to VAT at the standard rate (currently 14%); or
- a supply is of an educational service by an educational institution established in an export country which is regulated by an educational authority in that export country; or
- the supply is of the services of a non-resident employee under an employment contract.

Example 32 – Exempt imported services

Assume that Mrs Sisulu in **Example 31** was to enrol her eldest son Solly in an MBA distance learning programme offered by the University of Wales at a cost of €10 000 (assuming that this is the equivalent of R120 000).

In this situation, educational services are supplied by the University of Wales (a non-resident) to the recipient Solly (a resident of the RSA). The services are imported for non-taxable (private) purposes and therefore fall within the definition of “imported services”. However, the VAT Act makes provision for an exemption in this situation as the same educational services, if provided by any university in the RSA, would have been exempt from VAT in terms of section 12(h) of the VAT Act.

VAT is therefore not payable by the recipient (Mrs Sisulu or Solly) on the fees of R120 000 in this case.

CHAPTER 11

TAX INVOICES

11.1 INTRODUCTION

As discussed in **Chapter 1**, South Africa operates a VAT system whereby the VAT charged by suppliers is subtracted from the VAT charged to customers in order to calculate the VAT payable or refundable. The most important document in such a system is the tax invoice. Without a proper tax invoice you cannot deduct input tax on purchases for your enterprise, and if you have clients who are vendors or if you sell goods to foreign tourists, they cannot claim back the VAT that you have charged them, or claim a refund of the VAT when taking the goods out of the country.

11.2 WHAT IS THE DIFFERENCE BETWEEN AN INVOICE AND A TAX INVOICE?

An **invoice** is a document notifying the purchaser of an obligation to make payment in respect of a transaction (not necessarily a taxable supply). The issuing of an invoice is one of the events which may trigger the time of supply for a transaction, which, if it is a taxable supply, will normally mean that there would be an obligation to declare output tax. Conversely, the fact that you may have an invoice from the supplier, does not mean that you will be entitled to deduct input tax thereon.

On the other hand, a **tax invoice** is a document which is provided for in the VAT Act to enable the vendor to deduct input tax. It will therefore always relate to a taxable supply (whether wholly or partially). The VAT Act prescribes that a tax invoice must contain certain details about the taxable supply as well as the parties to the transaction. *Refer to **paragraph 11.2** below for details.*

In practice, some vendors combine the function of the two documents to avoid administrative duplications. However, vendors who prefer this method should ensure that their invoices comply with the requirements of a tax invoice, otherwise their customers will not be allowed to deduct the VAT charged as input tax.

11.3 WHAT ARE THE REQUIREMENTS FOR TAX INVOICES?

The following information must be reflected on a tax invoice for it to be considered valid:

Full Tax invoice (Consideration of R3 000 or more) Section 20(4) of the VAT Act.	Abridged Tax invoice (Consideration less than R3 000) Section 20(5) of the VAT Act.
<ul style="list-style-type: none"> • The words “TAX INVOICE” in a prominent place; • Name, address and VAT registration number³³ of the supplier; • Name, address and VAT registration number of recipient*; • Serial number and date of issue; • Full and proper description of the goods and/or services; • Quantity or volume of goods or services supplied; • Price & VAT (according to any of the 3 approved methods discussed overleaf). 	<ul style="list-style-type: none"> • The words “TAX INVOICE” in a prominent place; • Name, address and VAT registration number of the supplier; <li style="text-align: center;">- - - • Serial number and date of issue; • A description of the goods and/or services; <li style="text-align: center;">- - - • Price & VAT (according to any of the 3 approved methods discussed overleaf).

³³ The VAT registration number must be reflected on all tax invoices with effect from 1 March 2005. This rule applies for full tax invoices and abridged tax invoices as well as in the case of any debit or credit notes issued in connection with taxable supplies made. The physical address from where the business is conducted must also be reflected and not the post office box number of the business or the residential address of the business owner (unless this information is included in addition to the physical address of the business).

Approved methods for reflecting the consideration and VAT for taxable supplies.

Method 1		Method 2		Method 3	
All individual amounts reflected.		Total consideration only and the VAT rate charged.		Total consideration and the VAT charged.	
Price (excl. VAT)	R500	The total consideration	R570	The total consideration	R570
VAT charged	<u>R 70</u>	VAT included @ 14%		VAT included	R 70
Total including VAT	<u>R570</u>				

EXAMPLE: FULL TAX INVOICE (CONSIDERATION MORE THAN R3 000)

TAX INVOICE

The words "tax invoice" in a prominent place on the document.

Trading name, address and VAT registration number of the supplier

AC Motor Dealers CC
t/a Bushlands Motors
57 Bushy Lane
BUSHLANDS
VAT No.: 4111252081

Serialised tax invoice number

Invoice no. 1958/11

Date of the tax invoice

Date : 30 November 2011

Name and address of the recipient

To : Mr Joe Soap
123 Gingerbread Road
Newlands
Cape Town

VAT registration number of the recipient (if registered) where the consideration exceeds R3 000

VAT No. 4740123987

Accurate description of the goods or services supplied

Date	Quantity	Description	VAT	R
30/11/2011	1	2006 BMW 318i (second-hand goods)	28 000.00	228 000.00
	1	Alarm System	420.00	3 420.00
Total				231 420.00
VAT included @ 14%				28 420.00

Quantity of goods or services supplied

Total selling price charged including VAT. The VAT must either be shown separately, or the tax invoice must contain a statement that the total consideration includes VAT @ 14%

EXAMPLE: ABRIDGED TAX INVOICE (CONSIDERATION LESS THAN R3 000)

<u>TAX INVOICE</u>		
Vendor (Pty) Limited Highfield Building 80 Club Avenue Norwood 2192		Tax Invoice No: 2011/1235 VAT Registration No: 4321123450
Date: 30 November 2011		
DATE	DESCRIPTION OF GOODS / SERVICES	R
30/11/2011	Widgets 300 x 200	300
	VAT @ 14%	42
	Total	342

The following important points should also be noted with regard to tax invoices:

- A vendor must issue a tax invoice to the recipient within 21 days of the supply having been made where the consideration for the supply exceeds R50 (whether the recipient has requested this or not).
- If the consideration in money for the supply is R50 or less, a tax invoice is not required. However, a document such as a till slip or sales docket indicating the VAT charged by the supplier will be required to verify the input tax deducted.
- Where the consideration for a taxable supply exceeds R50 but does not exceed R3 000, an abridged tax invoice may be issued (*refer to the example above*).
- A tax invoice must be in South African currency, except for a zero-rated supply (for example, goods exported). In such cases, a full tax invoice must be issued (*refer to the example on the previous page*), even if the consideration is less than R3 000. With effect from 1 March 2005 a full tax invoice must indicate the recipient's VAT registration number (if that person is a vendor).
- A tax invoice is not issued by a debtor (vendor) under an instalment credit agreement if the goods are repossessed. This will be done by the person exercising their right of repossession (that is, the bank or other financier).
- If a vendor fails to deduct input tax in respect of a particular tax period, it may be deducted in a later tax period, but limited to a period of five years from the date that the supply concerned was made.

11.4 TAX INVOICES PREPARED BY THE RECIPIENT (RECIPIENT-CREATED INVOICING)

In some instances the consideration for a supply is determined by the recipient of the goods/services rather than by the supplier. An example of this is where a farmer (the supplier) takes produce to a co-operative which will only be sold at a later stage, once the quality and quantity of the produce has been determined. Since the price that will eventually be obtained for the goods depends on factors outside the farmer's control (and often the co-operative merely acts as agent for the supplier), the farmer is not in a position to issue an invoice or tax invoice for the produce when it is delivered for sale. In such cases, SARS may permit the co-operative (recipient) to issue the tax invoices and any debit and credit notes relating to supplies instead of the supplier. This is referred to as "recipient-created invoicing" or "self-invoicing".

Vendors were required to apply to SARS for approval in terms of paragraph 5 of VAT Practice Note No. 2³⁴, before being granted permission to apply self-invoicing. Paragraph 5 of the practice note was later withdrawn and replaced with [Interpretation Note No. 56: Recipient-created tax invoices; credit and debit notes](#) dated 31 March 2010. Paragraph 5 of the Note contains a binding general ruling (BGR) which essentially grants approval to recipient vendors to apply self-invoicing where the recipient determines the consideration for the supply of the goods or services and is in control of determining the quantity or quality of the supply, or is responsible for measuring or testing the goods sold by the supplier.

³⁴ Note that, depending on the source consulted, it may be found that the paragraphs in Practice Note 2 have been incorrectly numbered. Attention should therefore be paid to the heading of the paragraph rather than the numbering.

The BGR provides that in such cases, the recipient, instead of the supplier, may issue any tax invoices, credit and debit notes for the supplies concerned. This is on condition that the parties to the transaction comply with the requirements set out in the Note. Vendors that want to apply self-invoicing procedures, but are unable to comply with the requirements stipulated in paragraph 5.1 or 5.2 of the Interpretation Note will have to obtain written authorisation from SARS before they will be allowed to apply this method of invoicing. Note that approval for self-invoicing procedures will not be granted where the purpose is merely to facilitate the obtaining of a tax invoice by the recipient. Approval will only be granted in the case of those industries and transactions where an effective self-invoicing system has traditionally been followed in the past.

The **written application** to apply self-invoicing must provide the following details –

- a description of the nature of the businesses respectively carried on by the supplier and the recipient;
- a full description of the transactions in respect of which self-invoicing is required;
- the existing invoicing procedures being followed for such transactions; and
- an undertaking by the recipient that they will comply with the administrative requirements with regard to tax invoices, debit notes or credit notes. The applicant must also obtain and retain the written agreement of each affected supplier in this regard (vendors) as well as their written confirmation that they will comply with the said administrative requirements.

11.5 TAX INVOICES FOR MIXED SUPPLIES

As mentioned in **paragraph 11.3** above, where the supply is a zero-rated supply, a full tax invoice must be issued. Where the supply is exempt from VAT, no tax invoice may be issued and since no tax is charged, no input tax may be deducted in respect thereof. There may however be a situation where various supplies are made by the same supplier and where each supply is treated differently for VAT purposes (for example in the tourism industry). Where this occurs, the tax invoice must clearly distinguish between the various supplies and indicate separately the applicable values, and the tax charged (if any) on each supply.

EXAMPLE: TAX INVOICE FOR MIXED SUPPLIES

<u>TAX INVOICE</u>		VAT No.: 4111252081		
TAX INVOICE NO. 2011/195		Date: <i>30 November 2011</i>		
To: <i>Mr D. Touriste</i> <i>101 PlattelandWeg</i> <i>Amsterdam</i> <i>Netherlands</i>		From: Scenic Tour Operators 57 Bushy Lane Bushlands 1234		
VAT No: <i>[n/a – non-resident]</i>				
DATE	QTY	DESCRIPTION OF SERVICE/GOODS	VAT STATUS	R
30/11/2011	2	Airport shuttle @ R150 per trip	Exempt	300
	2	Tour guide fee @ R500	14%	1 000
	4 nights	Accommodation B & B @ R2 500	14%	10 000
	5	Paintings ³⁵	14%	5 000
	50 litres	Diesel – for rented 4x4 vehicle	0%	200
VAT @14% on: R16 000 ³⁶				2 240
Total				18 740

³⁵ VAT charged @ 14% as the tourist will remove the goods from the RSA himself.

³⁶ VAT = R10 000 + R1 000 + R5 000 = R16 000 x 14% = R2 240.

11.6 SPECIAL CASES

Although the general rule is that a vendor must have a tax invoice before being allowed to deduct any input tax in relation to the supply, there are a few exceptions to the rule which are discussed in **paragraphs 11.6.1 to 11.6.3** below.

11.6.1 Second-hand goods

Where a vendor purchases second-hand goods from a non-vendor, the purchaser (vendor) has to record the following details to substantiate the input tax deducted:

- Name, address and ID no. of the supplier (ID no. of the representative person if it is a company or close corporation).
- Date of acquisition.
- Quantity or volume of goods.
- Description of the goods.
- Consideration for the supply.
- Proof of payment (including the date of payment)
- Declaration by the supplier stating that the supply is not a taxable supply.
- The vendor must verify the person's ID no. with the ID book or passport.
- For all supplies³⁷, the vendor must obtain and retain a copy of the person's ID, and, in the case of a company or cc, a business letterhead or similar document is also required which shows the name and registration number allocated by the Registrar of Companies.

IMPORTANT NOTE

Form VAT 264 has been designed specifically to assist vendors to comply with the law. The form must therefore be completed and maintained as part of the vendor's records for VAT purposes for the prescribed recordkeeping period.

11.6.2 Repossession of goods

Where goods supplied under an instalment credit agreement are repossessed, it is impractical to require the person from whom the goods were repossessed, (that is, the debtor), to issue an invoice or tax invoice to the financier, therefore –

- if the **goods are repossessed from a vendor**, the person exercising the right of repossession (normally a bank or other financier who is also a vendor), is required to create and furnish a tax invoice to the debtor; and
- if the **goods are repossessed from a non-vendor**, the person exercising the right of repossession (vendor) is required to keep details as mentioned in **paragraph 11.6.1** above relating to second-hand goods.

11.6.3 Other cases

Where the purchase price is less than R50 and the total consideration is in money, no tax invoice is required (discussed in **paragraph 11.3** above).

Where the Commissioner is satisfied that there will be sufficient records, and that it will be impractical for a tax invoice to be issued, permission may be granted for tax invoices not to be issued, or for the information on the tax invoice to vary from the standard requirements.

A bill of entry together with the proof of payment to Customs serves as the supporting documentation to deduct the VAT paid on any goods imported. Where the tax invoices are held by an agent, the necessary details in the required schedules from the agent must be held.

³⁷ From 2 November 2010, the documentation set out in section 20(8) is required for any non-taxable acquisition of second-hand goods. Previously, this was only required for non-taxable acquisitions of second-hand goods where the consideration was R1 000 or more.

11.7 ELECTRONIC TAX INVOICES

The VAT Act includes specific requirements on the issuing of tax invoices, debit and credit debit notes, and the storage of these documents. Although the requirements were drafted when most vendors followed the traditional manner of physically issuing and retaining documents in hard-copy format, they are equally applicable to vendors that do “e-invoicing”.³⁸ In [VAT News 20 \(September 2002\)](#) and [VAT News 22 \(September 2003\)](#), guidelines were provided in this regard and it was stated that vendors do not need prior approval from the Commissioner to implement e-invoicing. However, it should be noted that generally the electronic transmission and retention of documents³⁹ is regulated by the Electronic Communications and Transactions Act No. 25 of 2002 (the ECT Act). SARS is therefore not in a position to issue rulings or provide advice on whether any EDI systems or any other electronic communications meet the technical specifications of the ECT Act. As the National Department of Communications regulates the ECT Act, it is the competent authority to approach for advice in this regard.

Vendors wishing to implement an electronic system must ensure that they do not replace their existing paper-based documentary systems before ensuring that they meet all the requirements.

11.8 LOST OR MISPLACED TAX INVOICES

If a tax invoice in respect of a particular supply is lost, you may not request the supplier to issue another tax invoice as it is an offence to issue more than one tax invoice per taxable supply.

In order to meet the documentary requirements for deducting input tax, you can request the supplier to issue you with a copy tax invoice as long as the document is clearly marked “copy”. A photocopy which has been clearly marked “COPY” ***after*** it has been photocopied can also be used in such instances.

A facsimile of a tax invoice is not acceptable unless printed by a plain paper facsimile machine. Also, a tax invoice sent by e-mail is not acceptable unless the parties to the transaction have implemented e-invoicing as discussed in ***paragraph 11.7*** above.

³⁸ This refers to the issuing of documents in electronic format and is also known as Electronic Data Interchange (EDI).

³⁹ Refer to **Chapter 15** for details regarding the retention of records.

CHAPTER 12

DEBIT & CREDIT NOTES

12.1 INTRODUCTION

A **debit note** will normally be issued by the supplier when the tax invoice for the supply has already been issued and the previously agreed consideration is subsequently **increased**. Conversely, a **credit note** will normally be issued by the supplier when the tax invoice for the supply has already been issued and the previously agreed consideration is subsequently **reduced**. A **credit note** is also issued by the original supplier **when faulty goods are returned** by the customer. Debit and credit notes therefore provide a mechanism to support the necessary VAT adjustments required or allowed where an event has the effect of altering the original consideration agreed upon for a past taxable supply, after the tax invoice has already been issued, or the vendor has accounted for the supply on a VAT return.

12.2 WHEN MUST DEBIT AND CREDIT NOTES BE ISSUED?

The following are the circumstances under which it will be necessary to issue a debit note or credit note:

- Where a supply of goods or services is cancelled.
- Where the nature of the supply of goods or services has been fundamentally varied or altered.
- Where the previously agreed consideration for the supply of the goods or services is being altered by agreement with the recipient (including a discount).
- Where part of, or all the goods or services supplied are returned to the supplier (including any returnable container returned to the supplier).

This will, however, only be necessary if in respect of any of the above circumstances the supplier has either –

- issued a tax invoice and the tax charged is incorrect; or
- furnished a VAT return in which the incorrect amount of output tax was accounted for.

The debit or credit note must be issued, whether or not the supplier accounts for tax on an invoice or payments basis. The issue of a credit note is not required when a prompt payment (settlement) discount is the reason for the reduction in the consideration, providing the terms of that discount are clearly shown on the tax invoice.⁴⁰

12.3 WHAT DETAILS MUST APPEAR ON DEBIT AND CREDIT NOTES?

The following details should appear on debit and credit notes:

- The words “debit note” or “credit note” (as the case may be) in a prominent place.
- The name, address and VAT registration number of the vendor.
- The name and address of the recipient (unless the supplier originally issued an abridged tax invoice).
- The date on which the debit note or credit note is issued.
- The amount by which the value of the supply and the VAT charged has been altered (or where the tax invoice reflected only the total consideration and a statement regarding the rate of tax applied, the amount by which the consideration has been reduced must be reflected and either the difference in VAT or a statement that adjustment includes an amount of tax and the rate of the tax included).
- A brief explanation of the circumstances giving rise to the debit or credit note.
- Sufficient information to identify the transaction to which the debit or credit note refers, for example, a reference to the original tax invoice number and the date on which it was issued.

⁴⁰ Refer also to the Binding General Rulings (VAT) [No. 5](#) and [No. 6](#) dated 25 March 2011 regarding discounts rebates and incentives in the motor industry and fast moving consumable goods industry respectively.

Below is an example of a credit note and a debit note.

EXAMPLE: CREDIT NOTE

<u>CREDIT NOTE</u>						
Vendor (Pty) Limited Suite 4, 1 st Floor Highfield 80 Grant Avenue Norwood 2192			VAT Registration no: 4321123450 Date : 6 November 2011			
To: Confused (Pty) Limited - VAT registration no: 4291163592 89 Horror Street Johannesburg 2001						
Tax invoice Reference	Description of goods	Reason for credit note	Incorrect amount	Correct amount	Net amount	VAT
No: 8962/4 – dd 8/10/11	30mm Widgets supplied @ R1 each	Charged for 400 units instead of 300	R400	R300	R100	R12.28

EXAMPLE: DEBIT NOTE

<u>DEBIT NOTE</u>						
Vendor (Pty) Limited Suite 4, 1 st Floor Highfield 80 Grant Avenue Norwood 2192			VAT Registration no: 4321123450 Date : 6 November 2011			
To: Confused (Pty) Limited - VAT registration no: 4291163592 89 Horror Street Johannesburg 2001						
Tax invoice Reference	Description of goods	Reason for debit note	Incorrect amount	Correct amount	Net amount	VAT
No: 8963/4 - dd 8/10/11	30mm Widgets supplied @ R1 each	Charged for only 200 units instead of 300	R200	R300	R100	R12.28

12.4 ADJUSTMENTS

The VAT Act makes provision for debit and credit notes to be issued in respect of a single supply. Remember that the consideration for a supply can only be altered by means of a debit or credit note – it is not correct to merely issue another tax invoice. **Note also that it is illegal to issue more than one tax invoice per taxable supply.**

Debit and credit notes must be reflected on the VAT 201 return as follows:

- **Field 12** – Output tax – debit notes issued and credit notes received.
- **Field 18** – Input tax – credit notes issued and debit notes received.

Credit notes issued may not be set off against the sales made to the same vendor, and similarly, debit notes may not be set off against purchases unless the debit or credit note concerned is issued in the same tax period in which the supply has taken place.

Note

Where it is discovered that the cash relating to a transaction has been stolen or misappropriated, this does not entitle the vendor to issue a credit note and deduct input tax thereon. The VAT Act does not provide for a deduction or adjustment in such cases.

Refer to **Chapter 13** for more details on adjustments.

CHAPTER 13

ADJUSTMENTS

13.1 INTRODUCTION

This chapter identifies those situations in which a vendor will be required to make adjustments to input tax or output tax. It explains when the adjustments should be made by the vendor and what the amounts of the adjustments should be.

Adjustments to **input tax or output tax** will arise in respect of taxable supplies, for example, where –

- an irrecoverable debt is written off by a vendor;
- a debit or credit note is issued or received by a vendor;
- early payment of an account gives rise to a prompt settlement discount;
- faulty goods received by the customer are returned to the supplier; and
- a change in the extent of taxable use or application of goods or services occurs.

13.2 IRRECOVERABLE DEBTS

A vendor who accounts for VAT on the invoice basis may deduct input tax in respect of debts which have become irrecoverable. In the exceptional case where a vendor is registered on the payments basis and has already accounted for a taxable supply which was paid with a cheque and the cheque is dishonoured, that vendor may also deduct input tax. The circumstances under which such a deduction may be claimed, requires firstly that there must have been a taxable supply for a consideration in money. Secondly, the vendor must already have accounted for the supply in a VAT return. Only then is that vendor entitled to make an input tax adjustment. The adjustment is calculated by applying the tax fraction (14/114) to the amount actually written off as input tax.

A debt will be considered as irrecoverable if **both** the following requirements have been complied with, namely:

- The vendor must have done all the necessary entries in the accounting system to record that the amount has been written off.
- The vendor must have ceased active recovery action on the debt **or** handed the debt over to an attorney or debt collector.

The vendor may then make an input tax deduction in the tax period in which **both** of the abovementioned requirements have been met.

In the case where the vendor subsequently receives payment in respect of a debt written off as irrecoverable, the vendor must account for output tax on the payment in the tax period in which the payment is received.

13.3 DEBIT AND CREDIT NOTES

The circumstances in which debit and credit notes are required to be issued are dealt with in **Chapter 12**.

Credit notes are issued by a supplier for various reasons, after a tax invoice was issued and the consideration for the supply is therefore reduced (for example, when faulty goods are returned to a supplier). Where a vendor issues a credit note, that vendor is required to make an adjustment to input tax. The vendor receiving a credit note must make an adjustment to output tax. These adjustments must be accounted for in the VAT return for the tax period in which the increase in consideration occurs, that is, in the tax period in which the credit note is issued by the vendor.

Where a vendor issues a debit note, that vendor is required to make an adjustment to output tax. The vendor receiving a debit note must make an adjustment to input tax. These adjustments must be accounted for in the VAT return for the tax period in which the increase in consideration occurs, that is, in the tax period in which the debit note is issued by the vendor.

Remember that the rules discussed above apply to vendors in accordance with the principles upon which they account for VAT. For example, a vendor who registered on the payments basis will only make the necessary adjustments when payment in respect of the debit or credit note is made or received, whereas vendors on the invoice basis account for the debit or credit note upon the issue or receipt of that document.

13.4 PROMPT SETTLEMENT DISCOUNTS

Where the terms of a prompt settlement discount are stated on a tax invoice, a credit note need not be issued if the consideration for the supply is reduced by reason of the stated discount offer being accepted.

Where the prompt settlement discount applies, the vendor giving the discount is entitled to make an adjustment to the output tax in the VAT return for the tax period that covers the date on which the discount is taken. Where the discount is allowed in the same tax period in which the supply was made, the vendor may offset this amount against the total output tax declared for the tax period, or reflect the amount in field 18 of the VAT return for that period.

Similarly, the vendor receiving the settlement discount must account for output tax in field 12 of the VAT 201 return, or reduce the total amount of input tax deducted in the VAT return for the tax period in which the settlement discount is allowed.

13.5 CHANGE IN USE OR APPLICATION

Where a vendor increases or decreases the use of capital goods or services to make taxable supplies, or if stock items or capital assets are taken from the business for own use, or for exempt or other non-taxable purposes, the vendor must make an adjustment to output or input tax (as the case may be).

The definition “**adjusted cost**” was introduced into sections 16(3)(h), 18(2), (4) and (5) of the VAT Act for the purposes of calculating certain input and output tax adjustments required by, or allowed to, a vendor on any change of taxable use of assets. The effect is that any costs incurred in acquiring the assets which are not VAT inclusive (or deemed to include VAT) are excluded in the formula used to calculate the adjustment. Examples include finance charges (exempt) or labour charges by a non-vendor (no VAT chargeable), and salary and wages incurred in the manufacture, assembly, construction or production of those goods or services.

An adjustment to **output tax** will be required where –

- goods or services acquired for making taxable supplies are subsequently applied wholly for private, exempt or other non-taxable purposes; or
- there is a *decrease* of more than 10% in the extent of taxable use or application by the vendor of capital goods and services which have an adjusted cost of R40 000 or more.

An adjustment to **input tax** may be permitted where –

- goods or services applied wholly or partly for exempt or private purposes are subsequently applied wholly or partly for making taxable supplies; or
- there is an *increase* of more than 10% in the extent of taxable use or application by the vendor of the capital goods or services concerned.

13.5.1 Change in use from taxable to non-taxable purposes [section 18(1)]

If you bought or imported **any goods or services (including capital goods or services)** for your business and deducted input tax, and later, applied the goods or services for your own use, for exempt supplies, or for other non-taxable purposes, you will have to pay output tax on the open market value of those goods or services. The adjustment must be made at the time that the goods or services are applied wholly for non-taxable purposes.

An output tax adjustment must also be made if you donate any stock or other enterprise assets on which input tax was previously deducted if you do not receive anything in return.

Example 33 – Change in use from taxable to private purposes

Ms H is a chartered accountant and has her own practice, and is registered for VAT under the Category B tax period. She bought a computer for the business in January 2008 for R5 700 (excluding finance charges, but including VAT) and accordingly deducted input tax of R700 in her February 2008 VAT return. In December 2009, she decides to upgrade the office computer and takes the computer home for her children to use. The market value of the computer as at December 2009 is R2 280. Ms H must now account for output tax of R280 ($R2\ 280 \times 14/114$) in field 12 of the December 2009 VAT return.

Property developers in particular have experienced difficulty in complying with this provision over the years as they are sometimes unable to sell certain of the residential properties developed in difficult economic times. As a result, there is often a tendency to let these properties temporarily as dwellings while continuing to market the properties for sale. Immediately upon letting the properties as dwellings, the property developers will be making exempt supplies (albeit temporarily) and will be required to account for output tax on the open market value of the properties concerned at the time when the change of use occurs.

Section 18B was therefore introduced with effect from 10 January 2012 to provide temporary relief for property developers when they temporarily change the use of properties held as stock for resale (taxable supplies) by letting them as dwellings (exempt supplies) to tenants. The amendment is effective from 10 January 2012 and ceases to apply on 1 January 2015.

The relief is in the form of a suspension of the liability to declare output tax on the change in use adjustment. Developers that have experienced difficulties in selling residential properties developed as trading stock will therefore be allowed to temporarily rent those properties during the 36 month relief period without having to declare output tax on the adjustment relating to the change in use from taxable to exempt supplies. The relief applies in respect of dwellings temporarily let to tenants on or after 10 January 2012. In electing to apply the relief, developers must submit a declaration in respect of each residential unit that is temporarily let. A copy of the declaration must be retained by the vendor for at least five years as part of the business records as required in terms of section 55.

The relief period commences when the property is rented for the first time after 10 January 2012 and is only available as long as the developer continues to have the intention of selling the property. Output tax will be payable on the open market value of the property as at -

- the cut-off date of 1 January 2015; or
 - the date that there is a permanent change of use or intention from taxable to non-taxable purposes relating to the properties concerned;
- whichever date is the earliest.

The relief will not apply in respect of residential properties held as trading stock which have been temporarily let before 10 January 2012, or if the required declaration is not made to SARS (and a copy retained by the vendor) in respect of the properties concerned within the 30-day period prescribed in section 18B(4).

13.5.2 Decrease in extent of taxable use of capital goods or services [section 18(2)]

An adjustment is required to a vendor's output tax in those circumstances where there is a **decrease of more than 10%** in the extent to which **capital goods or services** are used or applied in the course of making taxable supplies. The adjustment is made on an annual basis.

No adjustment is applicable where –

- the adjusted cost is less than R40 000 (excluding VAT); or
- the vendor is a *public authority or constitutional institution* and the capital goods or services were acquired before 1 April 2005; or
- the vendor is a *municipality* and the capital goods or services were acquired before 1 July 2006.

Example 34 – Decrease in extent of taxable use of capital goods or services

Ms C (a registered VAT vendor) owns a double-storey building situated in Cape Town. The building is used for mixed purposes in that it has 4 shops on the ground floor (taxable supplies) and 2 large residential apartments on the first floor (exempt supplies). Shops are rented for R12 000 each (excluding VAT) and apartments for R6 000 each per month. In March 2008, Ms C purchases a computer system for R114 000 (inclusive of VAT), which is intended for use in her business. At the time of purchasing the computer system, Ms C derives 80% of her income from taxable supplies (shop rentals) and 20% from exempt supplies (residential rentals). Ms C has elected to use the standard turnover-based method of apportionment and in the April 2008 tax period, she deducts input tax of R11 200 ($14/114 \times R114\ 000 \times 80\%$) in respect of the computer system acquired.

At the end of February 2009, Ms C determines that the nature of her business has changed significantly and that her income from taxable supplies now comprises 60% and her income from exempt supplies comprises 40% of her total income. At the end of that month the computer system has an open market value of R92 340. The adjustment required to be made by Ms C to take account of the decrease in the extent of taxable use of the computer system is determined by the formula: **$A \times (B - C)$**

Where:

- A** represents the lesser of:
- (i) the adjusted cost of the computer system, namely R114 000; or
 - (ii) the open market value of the computer system, namely R92 340
- B** represents the extent of taxable use of the computer system at the time of the acquisition or in the prior 12-month period, namely 80%
- C** represents the extent of the taxable use of the computer system during the current 12-month period, namely 60%

Ms C's calculation will be $R92\ 340 \times (80\% - 60\%)$ or $R92\ 340 \times 20\% =$ **R18 468.**

In order to calculate the output tax which must be accounted for, Ms C would apply the tax fraction to the amount determined by the formula, for example, $14/114 \times R18\ 468 =$ **R2 268.**

Ms C must therefore declare an amount of R2 268 in VAT for the tax period ending February 2009 in her VAT 201 return in field 12.

13.5.3 Change in use from non-taxable to taxable purposes [section 18(4)]

A vendor is entitled to make an input tax deduction where goods or services are held on after 30 September 1991 for exempt, private or other non-taxable purposes and subsequently applied by the vendor for consumption, use or supply in the course of making taxable supplies. In order to qualify for this deduction, the subsequent taxable use or application of the goods or services must occur on or after 30 September 1991. The deduction will not apply in respect of any goods or services for which a deduction of input tax is denied or would have been denied if the goods or services were acquired after 30 September 1991. The amount of the deduction will depend on the extent of the intended use of the goods or services in relation to the total intended use.

The vendor may deduct input tax in the tax period in which the goods or services are actually used for making taxable supplies. The amount of the adjustment is calculated by applying the tax fraction (14/114) to the lesser of the adjusted cost (including VAT), or the open market value of the relevant goods or services.

No adjustment is applicable where –

- the vendor is a *public authority or constitutional institution* and the goods or services were acquired before 1 April 2005; or
- the vendor is a *municipality* and the goods or services were acquired before 1 July 2006.

Example 35 – Change in use from private (non-taxable) to taxable purposes

A vendor purchases a single cab bakkie for private purposes on 1 March 2008. The bakkie costs R228 000 including VAT (excludes finance charges and any other charges incurred). The vendor then decides to use the bakkie exclusively in his business for delivery of goods to his/her customers with effect from 1 March 2009. At the time of introducing the bakkie into the business, it had an open market value of R205 200. The vendor will in the April 2009 tax period, now be entitled to deduct, in addition to other input tax deductions, a deduction of: $14 / 114 \times R205\ 200 = \underline{\underline{R25\ 200}}$

13.5.4 Increase in the extent of taxable use of capital goods or services [section 18(5)]

An input tax adjustment may be made by a vendor in circumstances where there is an **increase of more than 10%** in the extent to which **capital goods or services** are used or applied in the course of making taxable supplies. This adjustment is made on an annual basis.

No adjustment is applicable where –

- the adjusted cost is less than R40 000 (excluding VAT); or
- the vendor is a *public authority or constitutional institution* and the capital goods or services were acquired before 1 April 2005; or
- the vendor is a *municipality* and the capital goods or services were acquired before 1 July 2006.

Example 36 – Increase in extent of taxable use of capital goods or services

Ms C (registered VAT vendor) owns a double-storey building situated in Cape Town. The building is used for mixed purposes, in that it has 3 shops on the ground floor (taxable) and 4 residential apartments on the first floor (exempt). In March 2008, Ms C purchases a computer system for R114 000 (inclusive of VAT), which is intended for use in her business. At the time of purchasing the computer system, Ms C derives 60% of her income from taxable supplies (shop rentals) and 40% of her income from exempt supplies (residential rentals). Ms C has elected to use the standard turnover-based method of apportionment and in the April 2008 tax period, she deducts input tax of R8 400 ($14/114 \times R114\ 000 \times 60\%$) in respect of the computer system acquired.

Continue overleaf...

Example 36 (continued)

At the end of February 2009, Ms C determines that the nature of her business has changed significantly and that her income from taxable supplies now comprises 80% and her exempt income comprises 20% of her total income. At the end of that month the computer system has an open market value of R92 340.

As a result of the increase in the extent of taxable use, Ms C may claim an input tax adjustment as determined by the formula: **A x B x (C – D)**

Where:

- A** represents the tax fraction, that is, 14/114
- B** represents the lesser of:
 - (i) the adjusted cost of the computer system, namely R114 000; or
 - (ii) the open market value of the computer system, namely R92 340
- C** represents the extent of taxable use of the computer system during the current 12-month period (80%)
- D** represents the extent of the taxable use of the computer system at the time of acquisition or in the prior 12 month period (60%)

Ms C's calculation will be: $14 / 114 \times R92\,340 \times (80\% - 60\%)$
 $14 / 114 \times R92\,340 \times 20\% = \mathbf{R2\,268.}$

Ms C may now deduct an additional R2 268 in the February 2009 VAT return under field 18.

13.5.5 Subsequent sale or disposal of goods or services partly applied for taxable supplies [sections 8(16)(a) and 16(3)(h)]

When a vendor acquires goods and services which are used partly for making taxable supplies and thereafter supplies those same goods or services in the course of the enterprise, the vendor is required to account for output tax on the full consideration for the supply. In order to eliminate double taxation, the vendor is entitled in these circumstances to deduct the VAT that was originally disallowed on the acquisition of the goods or services.

Example 37 – Goods partially applied for taxable supplies subsequently sold

A vendor purchases a computer system costing R114 000 (including VAT) which is used 60% for exempt supplies and 40% for taxable supplies. The apportionment percentage was determined using the turnover-based method at the time of acquisition. The vendor correctly deducted input tax of R5 600 (calculated as follows - $14/114 \times R114\,000 \times 40\%$).

Two years later, the vendor sells the computer system for R57 000 (including R7 000 VAT). The vendor is therefore required to account for output tax of R7 000 on this transaction. However, an input tax credit may be deducted in the same VAT return on the VAT previously disallowed (60% for exempt supplies), which is determined by the formula:

$$\mathbf{A \times B \times C}$$

Where:

- A** represents the tax fraction, that is, 14/114
- B** represents the lesser of:
 - (i) the adjusted cost of the computer system, namely R114 000; or
 - (ii) the open market value of the computer system, namely R57 000
- C** represents the extent of the exempt use of the computer system before its sale by the vendor (that is, 60%)

Continue overleaf...

Example 37 (continued)

The vendor's calculation of the deduction from his output tax will be:

$$14/114 \times R57\,000 \times 60\% = \mathbf{R4\,200}$$

The vendor will therefore account for VAT in field 4A of their VAT return as follows:

	R
Output tax on sale	7 000
Less: Input tax	<u>(R4 200)</u>
Output tax payable	<u>R2 800</u>

CHAPTER 14

OBJECTIONS AND APPEALS

14.1 DISPUTE RESOLUTION

14.1.1 What to do if you dispute your tax assessment

With effect from 1 April 2003, legislation was introduced to assist you to resolve your tax disputes with SARS in a shorter period and in a more cost effective way. The changes impact on the following aspects:

- Reasons for assessment.
- Objection to an assessment.
- Appeal against disallowance of an objection.
- Post-appeal stage (alternative dispute resolution).
- Pre-hearing formalities (Tax Court or Tax Board).

14.1.2 Reasons for assessment

When you have been assessed for taxes owed, the assessment should be accompanied by adequate reasons which explain why the assessment has been raised. If the reasons are not adequate (or not included at all), you are entitled to request these reasons in writing within 30 business days from the date of the assessment.

14.1.3 Objection to an assessment

If you have received an assessment and you do not agree that it is correct, you may lodge an objection. The objection **must** –

- be in a form prescribed by the Commissioner ([ADR 1](#)) with the information requested in the form completed;
- specify in detail the grounds upon which the objection is made;
- specify an address where you will accept notice and delivery of SARS's decision in respect of the objection;
- be signed by you or your appointed representative; and
- be delivered to SARS at the address specified on the assessment, within 30 business days after the date of the assessment (or within 30 business days after the date that reasons for the assessment were furnished by the Commissioner, as the case may be).

An objection that does not comply with the requirements may result in the objection not being entertained, and SARS may inform you by notice within 60 days that it is not accepted as a valid objection. However, you may within 10 days of a notice by SARS that the objection is considered to be invalid, submit an amended objection. Where the amended objection complies with the requirements for a valid objection, SARS will treat it as such.

14.1.4 Request for further information

The Commissioner may request that you deliver any information, documents or things that are required in order to make a decision regarding your objection within 60 days from the date of receipt of your objection.

14.1.5 Allowance, disallowance or partial disallowance of the objection

The Commissioner must, within 90 days from the receipt of your objection, or within 60 days from the receipt of the requested further information, take a decision regarding the grounds of the objection. The decision can be either to allow or disallow the objection in full or in part. In the event that the objection is partially disallowed, it should be clear which part of the objection relating to the assessment is being disallowed.

14.1.6 Appeal against disallowance of an objection

If you are dissatisfied with the decision of SARS following the objection, you may appeal against that decision, in which case, you must deliver a notice of appeal to SARS within 30 business days from the date of receiving notice of SARS's decision in respect of the objection. The appeal **must** -

- be on the form prescribed by the Commissioner ([ADR 2](#));
- be signed by you or your authorised representative;
- indicate on which of the grounds specified in the objection you wish to appeal;
- indicate whether you wish to make use of the Alternative Dispute Resolution (ADR) procedures or rather appeal to the Special Board or Court for Hearing Tax Appeals.

14.1.7 Post-appeal stage

You may request that your tax dispute with SARS be dealt with in one of the following ways:

- By Alternative Dispute Resolution (ADR), which is intended to be used where you and SARS agree to resolve a particular dispute outside of court;
- By the Tax Board, which has jurisdiction in respect of those matters where the total amount in dispute does not exceed R500 000 per assessment;
- By the Tax Court, even where the total amount in dispute is less than R500 000 per assessment. For example, where there is a legal principle in dispute.

14.2 ALTERNATIVE DISPUTE RESOLUTION (ADR)

14.2.1 What is ADR?

ADR is a form of dispute resolution that is quicker and more informal than litigation, or adjudication through the courts. The ADR process is entirely without prejudice and is off the record. ADR is, however, a voluntary process and both parties have to agree to the process before it can apply to the resolution of a dispute.

If you wish to make use of the ADR process, you must indicate this in your notice of appeal. SARS will then inform you within 20 business days of receipt of the notice of appeal whether the matter is suitable for the ADR process, or not. The Commissioner may also initiate the ADR process by indicating to you within 10 days from the receipt of the notice of appeal, that the matter is appropriate for ADR.

14.2.2 Who facilitates ADR?

SARS will appoint, in the normal course, a trained and experienced person to facilitate the ADR proceedings. The person appointed is known as the facilitator and may include a SARS official or any other person who is suitably qualified to carry out the duties.

14.2.3 What ensures that ADR happens in a fair manner?

The facilitator is bound by a Code of Conduct and must seek a fair, equitable, and legal resolution of the dispute. The proceedings will be conducted in accordance with the terms set out in the ADR 2 form.

14.2.4 The ADR process

The process of ADR is as follows:

- The ADR process is initiated either by you, or by SARS as mentioned in **paragraph 14.2.1**.
- The facilitator will arrange an ADR meeting and notify all the parties.
- The meeting is conducted in an informal manner.
- During the meeting, both parties will state their case and provide evidence.
- During the process, the facilitator will endeavour to resolve the dispute between the parties.
- The parties will either come to an agreement to settle the dispute, or decide on the way forward.

14.2.5 Who represents you during the ADR process?

You can represent yourself during the ADR (for example, the individual vendor, or the public officer in the case of a company). Alternatively, you may appoint another person to act on your behalf, for example, if you require the assistance of your lawyer or accountant during the proceedings. However, only in exceptional circumstances will you be permitted to be excused from the ADR proceedings, for example, if you are in prison, or in hospital.

14.2.6 Outcome of ADR

At the conclusion of the ADR process, the facilitator must record the terms of any agreement or settlement reached. If no agreement or settlement is reached, that fact must also be recorded. If the dispute is resolved, it must be recorded and signed by you and a SARS representative. SARS will issue, where necessary, a revised assessment to give effect to the agreement reached after it has been presented to, and approved by, the Commissioner. In the event of the ADR process being unsuccessful, the unresolved dispute will be referred to the Tax Board or the Tax Court, depending on the amount in dispute.

14.2.7 Rights and obligations of parties

- You should at all times disclose all relevant facts during the ADR process.
- The ADR proceedings may not be electronically recorded.
- Representations made during the course of the ADR meetings are made without prejudice and may not be used against you in any subsequent proceedings.

14.2.8 How long does the ADR take?

The ADR process must be concluded within 90 business days, or such further period that you and SARS may agree upon.

14.2.9 What are the benefits of ADR?

It is a less formal and more cost-effective and speedier method of dispute resolution.

For further information, refer to [Interpretation Note No. 15 \(Issue 2\)](#) dated 8 November 2004.

Refer also to the ADR webpage on the [SARS website](#) where the following documents are also available:

- [Tax Guide on Dispute Resolution](#)
- [What do you do if you dispute your tax assessment?](#)
- [Alternative Dispute Resolution Quick Guide](#)

14.3 THE “PAY NOW, ARGUE LATER” PRINCIPLE

The principle that taxpayers or vendors are required to pay taxes that are the subject of a dispute with SARS (commonly known as the “pay now, argue later” principle) is a long-standing one that has been affirmed by the highest court in the country. Whilst taxpayers or vendors have always had the right to request that the application of this principle be waived, the factors to be considered in evaluating these requests have not been clear. In addition, the law did not provide adequately for a situation where it concerns the payment of interest on the refund of the tax paid in accordance with this principle, if SARS concedes to the objection or appeal at any time after the tax was paid. These areas of uncertainty were addressed in the Taxation Second Laws Amendment Act, 2009 which came into effect on 1 February 2011.⁴¹ The discretion to depart from this rule and grant suspension of payment is now based on defined criteria. A person may also apply for suspension before a formal objection is lodged. Existing SARS decisions to suspend payment of a disputed amount remain valid until the date given in the decisions or 31 July 2011, whichever is the earlier.

⁴¹ Notice 50 *Government Gazette* 33977, dated 28 January 2011.

The relevant amendments deal with three main aspects, namely –

- they confirm the application of the “pay now, argue later” principle and make it clear that a disputed tax debt may be collected despite an objection to the assessment in terms of which it is raised;
- they provide guidance on the factors to be considered in deciding whether to agree to a taxpayer’s or vendor’s request to suspend payment of a disputed debt; and
- they establish rules for the payment of interest should an amount be collected and later refunded because an objection has been conceded.

The following are some of the factors which SARS may consider in deciding on a taxpayer’s or vendor’s request to suspend payment of a disputed debt:

- The compliance history of the taxpayer or vendor;
- The risk of dissipation of assets of the enterprise during the period of suspension;
- Whether the taxpayer or vendor is able to provide adequate security for the payment of the amount involved;
- Whether payment of the amount involved would result in irreparable financial hardship to the taxpayer or vendor; and
- Whether the objection or appeal is frivolous or vexatious.

The interest paid in terms of the amendments will be paid at the same rate that SARS normally charges on outstanding debt.

SARS further clarified the position with regard to the application of the “pay now, argue later” principle in the news statement [“Pay now, argue later” principle clarified - 14 February 2011.](#)

CHAPTER 15

RECORD KEEPING

15.1 WHAT ARE RECORDS?

Records will include your books of account or relevant computer print-outs if a computer is used, as well as supporting documentation. A manual to the software must also be available.

Records therefore include –

- physical books of account and paper based source documents including computer printouts;
- electronic records; and
- all details of the accounting system, including charts, codes of accounts, instruction manuals, system and program documentation and specifications etc.

15.2 WHAT SPECIFIC RECORDS MUST I KEEP?

The VAT Act does not contain a comprehensive list relating to all vendors, as this would be impractical. You should, however, maintain all reasonable accounting documents and records to enable SARS auditors to establish the nature, time and value of all taxable supplies and importation of goods and services. This includes information which assists in reconciling your accounting records with the VAT returns submitted **for at least the past five years**. Details of any exempt supplies, other non-taxable activities, adjustments and any method of apportionment used should also be available.

The term “records” therefore includes the following which must be available for inspection by SARS at all reasonable times during the period for which they are required to be maintained: (*Refer to **paragraph 15.3***):

- a record of all goods and services supplied, received and imported;
- the applicable rate of tax on all supplies made and received;
- invoices, receipts and cash register tapes (z-readings);
- ledgers, cash books and journals and all other books of account;
- accounting charts, access codes, programme documentation and system instruction manuals;
- contracts/sale agreements;
- paid cheques and cheque books;
- stock sheets and control lists;
- debtors and creditors lists (in respect of a change in accounting basis);
- data in any electronic form, including computer printouts;
- the accounting instruction manuals and the system and programme documentation;
- bank deposit slips and bank statements;
- details of any agents acting on your behalf and transactions concluded through agents;
- the “1st copy” page of form VAT 262 for the servicing or repair of goods temporarily imported;
- tax invoices, debit and credit notes;
- calculations, declarations and records for input tax deducted on second-hands goods ([VAT 264](#));
- export documentation for zero-rated direct exports (for example [VAT 266](#), CCA 1, DA 550 SAD 500 bill of entry and any additional SAD document that might be required);
- records of all importations and the Customs documents relating thereto;
- DA 500, CCA 1 or SAD 500 bill of entry and any additional SAD document that might be required;
- proof that VAT was paid on the importation of goods.
- any other documents which would be considered necessary to verify transactions.
- the declaration required in terms of section 18B(4) relating to the adjustment relief provided to property developers for the temporary letting of residential properties held as trading stock.

15.3 HOW LONG MUST I KEEP MY RECORDS?

Vendors who are required to submit a return for income tax purposes must keep their records for the period referred to in section 73A of the Income Tax Act, that is, **five years after the submission of an income tax return relating to the transactions for that period.**

Vendors that are not required to submit an income tax return should keep their records for a period of **five years from the date of last entry in any book.** Where the records are not kept in book form, they must be kept for a period of five years after the completion of the transactions, acts or operations to which they relate.

Example 38 – Calculation of the five year record-keeping period

Company X is a VAT vendor with a February financial year-end. Company X is required to complete and submit an income tax return every year. Company X submitted income tax returns to SARS –

- on 1 July 2009, the return for the 2007 tax year (1/3/2006 to 28/2/2007) was submitted; and
- on 8 November 2009, the return for the 2008 tax year (1/3/2007 to 28/2/2008) was submitted.

Therefore, Company X must maintain its records and have them available for inspection for a period of five years calculated from –

- 1 July 2009 in the case of the 2007 tax year (that is, until 30 June 2014); and
- 8 November 2009 in the case of the 2008 tax year (that is, until 7 November 2014).

15.4 IN WHAT FORM MUST RECORDS BE KEPT?

Normally a vendor will be required to keep the original documentation in paper (hard copy) format. However, under certain circumstances SARS may allow the retention of microfilm copies, computer tape records, or other acceptable electronic or digital data storage formats, in lieu of the originals. In the latter case, the originals must be retained for one year from the beginning of the period for which they would otherwise have to be kept as discussed in **paragraph 15.3** above. A vendor may therefore retain records in any form, provided authorisation by the Commissioner has been granted. However, it should be noted that this rule does not apply to ledgers, cash books, journals and paid cheques.

Vendors are not required to obtain permission from SARS if it is intended to send and receive documents by means of EDI (electronic data interchange). There are, however other requirements and conditions which need to be met. (Refer also to **paragraph 11.7.**) The provision in section 16 of the Electronic Communications and Transactions Act, 2002 which indicates the legal requirements for retention of data messages is quoted below:

16. Retention

- 1) *Where a law requires information to be retained, that requirement is met by retaining such information in the form of a data message, if-*
 - a) *the information contained in the data message is accessible so as to be usable for subsequent reference;*
 - b) *the data message is in the format in which it was generated, sent or received, or in a format which can be demonstrated to represent accurately the information generated, sent or received; and*
 - c) *the origin and destination of that data message and the date and time it was sent or received can be determined.*
- 2) *The obligation to retain information as contemplated in subsection (1) does not extend to any information the sole purpose of which is to enable the message to be sent or received.*

Note: It is an offence not to keep proper records as specified in section 55 of the VAT Act, whether these are in paper or electronic format.

CHAPTER 16

DUTIES OF A VENDOR

16.1 RESPONSIBILITIES

As a registered vendor, there are certain duties and responsibilities imposed upon you and with which you will be expected to comply, such as –

- provide correct and accurate information to SARS;
- submit returns and payments on time;
- include VAT in all prices, advertisements and quotes in connection with taxable supplies;
- keep accurate accounting records for at least five years;
- produce relevant documents and information when required by the SARS pertaining to supplies, imports and exports of goods or services;
- notify SARS about any changes in your business, namely its address, trading name, partners, bank details and tax periods;
- issue tax invoices, debit and credit notes; and
- notify SARS of any changes of the details of the representative person.

These duties also apply to persons who have registered voluntarily as well as persons who should have registered for VAT, but who have not done so.

Please remember:

Failure to carry out these duties and responsibilities could result in penalties being payable and possibly prosecution, additional taxes, fines and/or imprisonment being imposed.

16.2 EVASION

Any person participating in, or helping any other person to evade VAT or claim a refund to which they are not entitled is committing a serious offence. In such cases, additional tax of up to twice the amount of VAT evaded or refunds fraudulently claimed could be levied. Over and above any additional tax charged, a fine or term of imprisonment could also be imposed.

Businesses or individuals evading VAT gain a competitive advantage over honest businesses; therefore it is in your interest to report evaders. This can be done by calling the **SARS Fraud and Anti-Corruption hotline 0800 00 28 70** anonymously.

CHAPTER 17

AUDITS AND ENQUIRIES

17.1 AUDITS

What is an audit?

An audit is generally a detailed check on the correctness of VAT returns and payments submitted by you. This entails verifying the correctness and accuracy of your accounting records relating to the transactions of your enterprise, as well as the validity of certain documents held as proof that input tax may be deducted.

When can I expect an audit and who will conduct the audit?

Every VAT registered vendor should be audited from time to time. Officers employed by SARS, who have undergone specialised training in all aspects of VAT administration, legal interpretation and accounting will therefore contact you as and when an audit needs to be conducted. You will either be requested to send certain supporting documentation to conduct the audit (desk audit), or arrangements will be made for the audit to be conducted at your principal place of business (field audit). An audit is conducted based on the risk profile of a vendor which is based on many factors, including the level of accuracy and completeness of returns, the risk factors which are inherent in the type of business conducted, the likelihood that refunds are a regular feature of the business, the number of past tax periods that have resulted in refunds and the amounts refunded, industry trends and norms, the time period since the last audit was carried out, history of compliance etc.

What is the scope of the audit?

The number of tax periods to be audited will be selected on a sample basis and will not necessarily include the latest return submitted. If material deficiencies and discrepancies arise from the selected sample, the scope of the audit may be extended to include other tax periods. The scope of the audit will therefore depend on the risk-based factors that indicate the scope and extent of the audit which needs to be conducted. For example, when conducting a routine refund audit, only one tax period may be audited, whereas a more detailed compliance investigation may involve tax periods covering a number of years.

17.2 REFUNDS AND SUSPENSION OF THE 21 DAY INTEREST-FREE PERIOD

When you submit a VAT 201 that results in a refund, SARS should pay that refund within 21 business days in terms of section 45(1). If the refund is paid after 21 business days, interest is payable to you for the period exceeding the 21 business days. If, however, during the 21 business days, SARS requests an audit to be conducted and you are unable to meet with the auditors, or some of your records relating to the relevant tax period(s) are not available or not sufficient, SARS will suspend the 21 business days interest-free period until such time that the records are available and the audit can be conducted and finalised. The correct address and contact details of your business should be available at all times to SARS. Refer to [VAT News 35 – February 2010](#) for more details in this regard.

17.3 ENQUIRIES AND INFORMATION

Since 1995, SARS has issued a newsletter known as VAT News twice a year which is intended to keep vendors informed of any changes in the law and highlights matters of general interest to the public, or practical problems experienced in the administration of VAT. In August 2011, VAT News was replaced by a new publication called "[VAT Connect](#)". This new publication serves essentially the same purpose as VAT News, except that it is sent electronically to vendors due to the discontinuation of the bulk mailing of returns and will also be issued more frequently. As there will be a number of other modernisation changes during 2011 and 2012, vendors are advised to check the [SARS website](#) for the latest information. These changes will also be communicated in [VAT Connect](#). Refer to the [SARS website](#) for contact details of all SARS branch offices and border posts. A list of contact details can also be found on pages 108 and 109 of this Guide.

CHAPTER 18

RULINGS

18.1 INTRODUCTION

Since the introduction of VAT in 1991, provision has been made for the Commissioner to issue rulings regarding the VAT treatment of supplies and importations. The issuing of rulings was intended mainly to provide certainty to vendors regarding the VAT implications of transactions conducted in the course of conducting an enterprise. In addition, it was intended to provide an assurance to the applicant that the ruling could be relied upon until withdrawn by the Commissioner, provided certain conditions were met.

The introduction of the Advance Tax Ruling (ATR) legislation had the effect of withdrawing all rulings previously issued by the Commissioner.⁴² Certain amendments had to be effected to the VAT Act to provide a legislative framework for the Commissioner to continue issuing binding rulings as well as a process to confirm rulings previously issued. The legislation creates a distinction between an advance tax ruling, a VAT class ruling and a VAT ruling. ATR rulings came into effect on 1 October 2006. VAT rulings have been available to taxpayers from 1 January 2007 and VAT class rulings came into effect on 1 October 2007.

Unless otherwise indicated, all statutory references are to the provisions of the Income Tax Act (ITA) and VAT Act. Any references to sections 76B to 76S of the ITA (excluding subsections (2)(k), (2)l) and (5) of section 76E, and section 76F), are applicable, *mutatis mutandis*,⁴³ to the VAT Act.

18.2 TERMINOLOGY

The following terms are used in this Chapter:

Applicant: An “applicant” is the person who applies for a VAT class ruling or a VAT ruling (or on whose behalf an application is filed). If a representative such as a lawyer or accountant files an application on behalf of a third party, that third party is considered the applicant. Similarly, if a person files an application in his or her capacity as a representative taxpayer for another entity such as a company or trust, that other entity is considered the applicant.

Application: An “application” is a written request for a ruling. The application must be made in the manner and form prescribed by the Commissioner.

Advance tax ruling (ATR): This term has the meaning as defined in section 76B of the ITA. It is a written statement issued by the Commissioner regarding the interpretation or application of the ITA and is limited to a binding general ruling under section 76P, a binding private ruling under section 76Q, or a binding class ruling under section 76R of the ITA. Section 41A of the VAT Act, which was promulgated on 13 July 2005, deals with Advance Tax Rulings on VAT matters and came into operation on 1 October 2006.⁴⁴

ITA: This refers to the Income Tax Act No. 58 of 1962.

Binding private ruling (BPR): A BPR is an advance tax ruling regarding the application or interpretation of the ITA in respect of a proposed transaction that is issued in accordance with the requirements of section 76Q of the ITA in response to an application by an applicant.

⁴² This excluded the general written rulings listed in the Rulings Register which were issued in terms of section 41(a) and (b) and those contained in Practice Notes, Interpretation Notes and the various issues of VAT News which continued to be binding to the extent that they have not been withdrawn by the Commissioner. Refer to [Binding General Ruling \(VAT\) No. 2 dated 1 January 2007](#) for more details in this regard. The Rulings Register was later withdrawn in a phased approach, commencing from 1 August 2009. The final batch of rulings was withdrawn on 1 November 2009. VAT Practice Notes No.1 and 5 of 1991, No. 15 of 1995 and No. 1 of 1996 were also withdrawn during 2009 and 2010. In this regard, refer to [Notice: Withdrawal of certain Practice Notes with effect from 1 February 2010](#) and [Interpretation Note No. 52 – Tax Periods](#) dated 14 December 2009.

⁴³ *Mutatis mutandis* is a Latin term which means “with the necessary changes”.

⁴⁴ These rulings can only be issued by the ATR section of the SARS Legal and Policy Division.

Nonbinding private opinion: This is a written statement issued by the Commissioner in response to an enquiry by a person to provide informal guidance on the tax treatment of a particular set of facts and circumstances or transaction, but which does not have any binding effect on the Commissioner.

No-rulings list: This is a list of issues in terms of section 76(G)(3) of the ITA, in terms of which, the Commissioner may reject certain ruling applications. The [no-rulings list](#) is supplementary to the exclusions, refusals and rejections contained in section 76G (1) and (2) of the ITA.

VAT class ruling: means a written statement issued by the Commissioner to a class of vendors or persons regarding the interpretation or application of the VAT Act.

VAT ruling: means a written statement issued by the Commissioner to a person regarding the interpretation or application of the VAT Act.

18.3 WHO MAY APPLY FOR A RULING?

Any “person” as defined in section 1 of the VAT Act, who is, or intends to be, a party to a proposed, current or a past transaction may apply for a ruling in connection with that transaction. This includes any public authority, local authority, company, body of persons (corporate or unincorporated), trust fund, foreign donor funded project and the estate of any deceased or insolvent person. An applicant does not have to be a South African resident. Where an agent, such as a lawyer or accountant files an application on behalf of a client, a Power of Attorney or equivalent written statement must be submitted, in terms of which, the applicant (client) authorises the agent to file the application and act as the applicant’s representative throughout the application and ruling process. A person may also file an application in his or her capacity as a representative taxpayer. An application may not be filed by or on behalf of a person who is not, or does not intend to be, a party to the proposed or past transaction in question.

SARS may reject a ruling application if it concerns an issue which is on the [no-rulings list](#), or if it may otherwise be excluded as envisaged in section 76(G)(1) or (2) of the ITA⁴⁵. Some examples of these issues are as follows:

- The entitlement to notional input tax in respect of goods that are still to be imported.
- Where the supplier of goods or services is not the applicant or a co-applicant on a matter pertaining to the taxable nature of a supply of goods or services.
- Where SARS is requested to rule on the substance of a transaction and disregard the form.
- Transactions which in the opinion of the Commissioner could be subject to any specific or general anti-avoidance provisions in the various acts administered by SARS.

18.4 DIFFERENT TYPES OF RULINGS

18.4.1 Section 41A: Advance tax rulings

General - With the introduction of Part IA of Chapter III of the ITA, with effect from 1 October 2006, a new ATR System was established. Section 41A of the VAT Act provides that Chapter III of the Income Tax Act applies, *mutatis mutandis*, to the VAT Act. This Chapter deals with the provisions governing the issuing of advance tax rulings which are categorised as binding general rulings, binding private rulings, binding class rulings and nonbinding written opinions.

Making application - All applications for ATR rulings must be filed using the ATR service available via the SARS eFiling system which may be accessed on the [SARS website](#) or www.sarsefiling.co.za.

Issuance of final ruling letter - Binding private rulings may only be issued by the ATR section of the SARS Legal and Policy Division.

⁴⁵ Sections 76(E) and (G) were amended from 2 November 2010 to provide that SARS will issue advance tax rulings and tax rulings only to compliant taxpayers. This means that the tax affairs of applicants for all taxes administered by the Commissioner must be in order before SARS will accept an application and issue a tax ruling or advanced tax ruling.

Publication of rulings - In terms of the ITA, all binding private rulings must be published by the Commissioner for general information purposes. However, the Commissioner is not obliged to publish a ruling where it is essentially the same as a ruling that has already been published. The letter is published in a form that does not reveal the identity of the applicant or the other parties to the proposed transaction.

Effect - In terms of the ITA, a binding private ruling may have a “binding effect” upon the Commissioner, subject to certain requirements and limitations. A written statement can only be binding if it contains a statement identifying it as such in accordance with section 76Q(5)(a) of the ITA.

Further details can be found on the [SARS website](#) under “Quick Contacts” in the left hand column. Click on “[Advance Tax Rulings \(ATR\)](#)” for access to various documents concerning ATR matters which includes, amongst others, the following:

- Comprehensive Guide to Advance Tax Rulings (ATR)
- A quick guide to Advance Tax Rulings
- The ATR Process
- Example of a Binding Ruling Application
- Published Rulings
- No-rulings list

18.4.2 Section 41(c): Decisions issued before 1 January 2007

General - Before the introduction of section 41B, decisions in terms of section 41(c) of the VAT Act were given by the Commissioner on various matters pertaining to VAT, for example:

- Whether a person was required to register as a vendor or not.
- The taxable or non-taxable nature of any supply or importation of goods or services by any person.
- The deductibility or non-deductibility in terms of section 16(3) of tax in respect of the supply to any person of goods or services or the importation by any person of goods.

Written decisions issued in terms of section 41(c) of the VAT Act were withdrawn with effect from 1 January 2007, and from that date, no written decision could be issued in terms of sections 41(a), (b) and (c) of the Act. However, provision was made for the Commissioner to confirm in writing the binding nature of any written decision issued before 1 January 2007 for supplies which continue to be made on or after 1 January 2007. All written decisions are now required to be issued in terms of section 41B of the VAT Act.

Making application - Applications for confirmation of the binding nature of decisions issued in terms of section 41(c) of the VAT Act expired during 2007. No new applications are accepted by SARS to reconfirm any of these old rulings. Vendors that wish to confirm their VAT position in regard to any supplies which they make, or for any goods or services imported, must apply for a new VAT ruling. Refer to **paragraph 18.4.3** for more details.

Issuance of final ruling letter - Rulings are issued either by the legal manager at the relevant SARS branch office, or in some instances, by the Legal and Policy Division. All rulings made in terms of section 72 of the VAT Act are issued by the Indirect Tax Policy Section of the Legal and Policy Division.

Publication of rulings - Rulings are issued and published in terms of section 41B of the VAT Act.

Effect – The amendment to section 41(c) of the VAT Act does not withdraw the binding effect of written decisions issued by the Commissioner in respect of past supplies made before 1 January 2007 which will not occur after 1 January 2007. These decisions remain binding and can be relied upon by the vendor. Any written decision issued before 1 January 2007 regarding supplies made, or to be made, on or after 1 January 2007 does not have any binding effect on the Commissioner. However, provision has been made for the Commissioner to confirm in writing the binding nature of any written decision issued before 1 January 2007.

Binding general ruling No. 2 (BGR 2) was issued on 1 January 2007 to provide guidance on the status of written decisions (rulings) issued before 1 January 2007 and the process of obtaining confirmation of the binding nature of such rulings. Refer also to [VAT News 29 \(February 2007\)](#). Paragraph 3.3 of BGR 2 allowed the applicant to continue to rely on the ruling as binding whilst awaiting written reconfirmation or written notice of withdrawal of the ruling.

18.4.3 Section 41B: VAT rulings and VAT class rulings

General - Section 41B of the VAT Act provides a legislative framework for the Commissioner to continue issuing binding VAT class rulings and VAT rulings as defined in that section, in addition to advance tax rulings under the ATR legislation. For VAT class rulings and VAT rulings, the applicant is not required to pay a fee as required under ATR. The Minister may, however, issue regulations in terms of which certain ruling applications will only be considered under the ATR provisions. The [no-rulings list](#) and the exclusions, refusals and rejections contained in section 76G(1) and (2) of the ITA also applies to VAT class rulings and VAT rulings.

Making application- All VAT class rulings or VAT rulings must be submitted on a form prescribed by the Commissioner. These forms will be available on the [SARS website](#). Any application for a VAT class ruling or a VAT ruling must be lodged with the legal manager at the SARS branch office where the vendor is registered.

The application must be accompanied by all the relevant information, such as:

- The applicant's name, VAT number (if applicable), address, contact details (e.g. phone, fax, e-mail, etc.), and if applicable, the contact details of the applicant's representative;
- A complete description of all the transaction(s) concerned, and the impact on the applicant's VAT liability (or on any connected person in relation to the applicant);
- A clear statement of the issue at hand, or the specific request which is to be ruled upon;
- The relevant statutory provisions and the applicant's interpretation of those provisions; and
- A statement to the effect that the issue upon which the ruling is sought, is not the subject of an audit, investigation, objection or appeals process, or a matter which is being considered by a Court, and in which the applicant (or any connected person in relation to the applicant) is involved.

Issuance of final ruling letter - VAT class rulings and VAT rulings are issued by the legal manager at the relevant SARS branch office, with the exception of section 72 rulings which are issued by the Legal and Policy Division at SARS Head Office (VAT, Transfer Duty and Securities Transfer Tax Policy subdivision).

Publication of rulings - A sanitised version of VAT class rulings and VAT rulings will be published only to the extent that it is different from a VAT class ruling, a VAT ruling or a binding general ruling already published. Sanitisation involves removal of anything that reveals the identity of the applicant(s) and includes –

- the name, address, and other identifying details of the applicant, as well as any person identified or referred to in the ruling;
- in the case of a VAT class ruling, the name, address, and other identifying details of the applicant for the ruling, as well as of any vendor of the class to which the ruling applies; and
- any information the disclosure of which would constitute a clearly unwarranted invasion of personal privacy.

Effect - VAT class rulings and VAT rulings are binding where it is stated as such in terms of section 41B of the VAT Act read with Part IA of Chapter III of the ITA. VAT class rulings or VAT rulings not containing a statement confirming its binding nature, will be regarded as a non-binding opinion.

A new process of dealing with applications for VAT class rulings and VAT rulings will be introduced in 2012 whereby applicants will be required to submit a request on a specific form to a centralised e-mail address. The new procedure is aimed at tracking all ruling requests from the date of receipt, to the date of issue, and to ensure that requests are dealt with efficiently. Details will be published on the [SARS website](#) and in [VAT Connect](#).

For more information on VAT class rulings and VAT rulings, refer to the binding general rulings which are available on the [SARS website](#). Refer also to [VAT News No. 32 \(August 2008 issue\)](#) for more information on what to include in an application for a ruling.

CHAPTER 19

GLOSSARY

Association not for gain An “association not for gain” is essentially a religious institution or other society, association or organisation (including an educational institution of a public character) which is not carried on for profit and is required to use any property or income solely in the furtherance of its aims and objects. An association not for gain could also qualify as a “welfare organisation” if it conducts certain activities. The [VAT 414 – Guide for Associations not for Gain and Welfare Organisations](#) deals specifically with associations not for gain and welfare organisations.

Commercial accommodation There are three types of commercial accommodation, namely:

- Lodging or board and lodging together with domestic goods and services in any house, flat, apartment, room, hotel, motel, inn, guesthouse residential establishment, holiday accommodation unit, chalet, tent, caravan, campsite, houseboat or similar establishment. This must be supplied regularly and systematically so that the income from the activity exceeds or is likely to exceed R60 000, calculated for a period of 12 months. This does not include the supply of a “dwelling” for letting/hiring (as this is an exempt supply in terms of section 12(c);
- Lodging or board and lodging in a home for the aged, children, physically or mentally handicapped persons; or
- Lodging or board and lodging in a hospice.

If the accommodation is provided for more than 28 days, only 60% of the charge is subject to tax (including meals and other domestic goods & services included in the all-inclusive tariff).

Connected person This term describes and identifies the relationships between different persons. The term is important because if persons are connected in terms of the definition, it may be necessary to apply special time and value of supply rules where the supplier may be required to charge VAT on the open market value of the supply, rather than on the amount of consideration received.

Examples include the following (amongst others):

- Natural persons who are related by blood or marriage.
- A company and any subsidiaries of that company.
- Any close corporation and its members.
- A natural person and a company where that natural person owns more than 10% of the shares or voting rights in that company.

Consideration This is basically the total amount of money (inc. VAT) received for a supply. For barter transactions where the consideration is not in money, the consideration will be the open market value of goods or services (inc. VAT) received for making the taxable supply. Section 10 of the VAT Act determines the value of supply or amount of the consideration for VAT purposes for different types of supplies.

Any act of forbearance whether voluntary or not for the inducement of a supply of goods or services will constitute consideration, but it excludes any donation made as an unconditional gift to an association not for gain. Also excluded is a “deposit” which is lodged to secure a future supply of goods and held in trust until the time of the supply. Since VAT is the difference between the selling price including the VAT and the value of the taxable supply, the following formulae can be derived:

$$\begin{array}{c} \text{VAT} = \text{consideration} - \text{value} \\ \text{or} \\ \text{Consideration} = \text{value} + \text{VAT} \end{array}$$

Domestic goods and services This includes the following when they are supplied together with commercial accommodation:

- Cleaning and maintenance.
- Electricity, gas, air conditioning or heating.
- Use of a telephone, television set, radio or other similar article.
- Furniture and other fittings.
- Meals.
- Laundry.
- Nursing services.

(The list is not exhaustive – just a few examples)

Where a person stays for longer than **28 days** in **any** hotel, guesthouse, inn, boarding house, retirement home, or similar establishment, **only 60% of an all inclusive charge** for accommodation and domestic goods or services will be subject to VAT. [*Refer to section 10(10) of the VAT Act for more information*].

However, where charges for domestic goods and services are not part of the all inclusive charge, then these separately itemised charges will attract VAT at the standard rate on the full value.

Donation This is where a payment (donation/unconditional gift) is voluntarily made to any association not for gain for the carrying on or the carrying out of the purposes of that association and in respect of which no identifiable direct valuable benefit arises or may arise in the form of a supply of goods or services to the person making that payment. The term also includes not only cash payments, but also the value of goods or services donated. This term is dealt with in more detail in the [VAT 414 - Guide for Associations not for Gain and Welfare Organisations](#).

Dwelling This is any building, premises, structure, or any other place or part thereof used predominantly as a place of residence or abode of any natural person (or which is intended for this purpose), including any fixtures and fittings belonging thereto and enjoyed therewith.

Enterprise Any business activity in the broadest sense. It includes any activity carried on –

- continuously or regularly;
- by any person;
- in or partly in the RSA;
- in the course of which goods or services are supplied for a consideration, that is, some form of payment;
- whether or not for profit.

Special inclusions

- Public authorities – certain government departments and provincial authorities.
- Municipalities – municipalities, Joint Services Board (JSB) and Regional Services Council (RSC).
- Welfare organisations and Foreign Donor Funded Projects.
- Share block companies.

The following activities are not “enterprise” activities and will therefore not attract VAT:

- Services rendered by an employee to an employer, for example, salary/wage/remuneration earners. This must however be distinguished from a private independent contractor who is not excluded.
- Supplies by a branch or main business permanently located outside the RSA (must be separately identifiable and maintain its own system of accounting).
- Private or recreational pursuits or hobbies (unless carried on like a business).
- Private occasional transactions, for example, occasional sale of domestic/household goods, personal effects or private motor vehicle.
- Any exempt supplies (listed in s 12).

Entertainment The term “entertainment” means the provision of any food, beverages, accommodation, entertainment, amusement, recreation or hospitality of any kind by a vendor whether directly or indirectly to anyone in connection with an enterprise carried on by that person. As a general rule expenses relating to entertainment may not be deducted as input tax. There are however some exceptions to the rule.

Examples of entertainment include the following:

- Staff refreshments such as tea, coffee and other beverages and snacks and other ingredients purchased in order to provide meals to staff, clients and business associates.
- Catering services acquired for staff canteens and dining rooms including own equipment, furniture and utensils used in kitchens, canteens and staff dining rooms.
- Christmas lunches and parties, including the hire of venues.
- Golf days for customers and clients.
- Beverages, meals and other hospitality and entertainment supplied to customers and clients at product launches and other promotional events.
- Entertainment of customers and clients in restaurants, theatres and night clubs.
- Capital goods such as hospitality boxes, holiday houses, yachts and private aircraft used for entertainment.

(The list is not exhaustive)

Exempt supply An exempt supply is a supply on which no VAT may be charged (even if the supplier is registered for VAT). Persons making only exempt supplies may not register for VAT and may not recover input tax on purchases to make exempt supplies. Section 12 of the VAT Act contains a list of exempt supplies.

Examples:

- Certain Financial Services.
- Supplies by any "association not for gain" of certain donated goods or services.
- Rental of accommodation in any "dwelling" including employee housing.
- Certain educational services.
- Services of employee organisations, for example, trade unions.
- Certain services to members of a sectional title, share block or old age scheme funded out of levies. (Not applicable to timeshare schemes).
- Public road and railway transport of fare paying passengers and their luggage.
- Childcare services in a crèche or after-school care centre

Goods The term “goods” includes –

- corporeal (tangible) movable things, goods in the ordinary sense (including any real right in those things);
- fixed property, land & buildings (including any real right in the property, for example, servitudes, mineral rights, notarial leases etc);
- sectional title units (including timeshare);
- shares in a share block company;
- postage stamps;
- electricity; and
- second-hand goods.

The term “goods” excludes –

- money that is, notes, coins, cheques, bills of exchange etc (except when sold as a collectors item);
- value cards, revenue stamps etc. which are used to pay taxes (except when sold as a collectors item); and
- any right under a mortgage bond.

Instalment Credit Agreement (ICA) An instalment credit agreement (ICA.) was previously known as a “hire purchase” or “HP” agreement. There are two types of ICA’s, namely an instalment sale agreement and a financial lease. These agreements are characterised by a suspensive condition as to the passing of ownership of the goods or services supplied. The agreement will normally provide for the payment of the purchase price including finance charges at a fixed or determinable charge and the recipient accepts the risks attached to those goods insofar as loss or damage is concerned. In the case of a financial lease, the term of the agreement must be at least 12 months.

A rental agreement (or operating lease) where the recipient does not become the owner of the goods at any stage is not an ICA.

Input tax This is the tax paid by the recipient to the supplier of goods or services. Input tax may only be deducted by the recipient vendor if the goods or services are acquired for making taxable supplies and if the vendor is in possession of a valid tax invoice for the supply. Where goods or services are acquired only partly for taxable supplies, an apportionment of input tax must be made. In the case of an importation, the vendor must be in possession of a valid bill of entry and proof that the VAT has been paid to Customs.

In certain instances, input tax may also be deducted on non-taxable supplies of second-hand goods acquired by the vendor, but the vendor must retain a proper record of the details of the transaction. Where the second-hand goods acquired constitute fixed property, the input tax is limited to the stamp duty or transfer duty payable and may only be deducted after the transfer duty or stamp duty has actually been paid.

As a general rule, input tax may not be deducted on supplies of “entertainment”, motor cars and club subscriptions. Input tax may also not be deducted where goods or services are acquired for the purpose of making exempt supplies, for private use or for other non-taxable activities.

Motor car “Motor car” is a defined term which includes vehicles which have three or more wheels, are normally used on public roads and which are constructed or converted wholly or mainly for carrying passengers. As a general rule input tax may not be deducted on the acquisition of a motor car, irrespective of the mode of acquisition or whether or not it is used for taxable supplies. Examples of passenger vehicles on which input tax cannot be deducted include ordinary motor cars, SUVs, double-cab bakkies (LDVs), minibuses etc. which are capable of carrying passengers.

The following vehicles do not qualify as a “motor car” as defined:

- Vehicles capable of accommodating more than 16 persons (for example, a bus).
- Specialised vehicles such as hysters, graders, tractors, mobile cranes, earthmoving vehicles etc. (seats only 1 person).
- Ambulances and caravans.
- Vehicles with an unladen mass of 3500 kg or more.
- Single cab bakkies (LDVs) /Trucks/ lorries/delivery vehicles.
- Hearses and game viewing vehicles.

Output tax The tax (VAT) charged by a vendor on a taxable supply of goods or services.

Person This term refers to the entity which is liable for VAT registration and includes the following:

- Sole proprietor, that is, a natural person.
- Company/close corporation.
- Partnership/joint venture.
- Deceased/insolvent estate.
- Trusts.
- Incorporated body of persons, for example, an entity established under its own enabling Act of Parliament.
- Unincorporated body of persons, for example, club, society or association with its own constitution.
- Foreign donor funded project.
- Municipalities/public authorities.

Second-hand goods	Second-hand goods are goods (including fixed property) that have been previously owned and used. The term excludes certain things, for example, animals, gold coins and certain “old order” mining rights.
Services	<p>The term “services” is very broad and <u>includes</u> –</p> <ul style="list-style-type: none"> • the granting, assignment, cession, surrender of any right; • the making available of any facility or advantage; and • certain acts which are deemed to be services in terms of section 8. <p>The term <u>excludes</u> –</p> <ul style="list-style-type: none"> • a supply of “goods” ; • money; and • any stamp, form or card which falls into the definition of “goods”. <p><u>Examples:</u></p> <ul style="list-style-type: none"> • Commercial services – electricians, plumbers, builders. • Professional services – doctors, accountants, lawyers. • Advertising agencies. • Intellectual property rights – patents, trade marks, copy rights, know-how. • Restraint of trade. • Cover under an insurance contract.
Supply	This definition is very wide and includes all forms of supply (including the expropriation of fixed property), irrespective of where the supply is effected, and any derivative of supply is construed accordingly.
Tax invoice	<p>This is a special document which is required to be held by a vendor to deduct input tax. The term is dealt with in Section 20 of the VAT Act which prescribes that where the consideration is R3 000 or more, or is a zero-rated supply a <u>full tax invoice</u> must be issued with the following information reflected thereon:</p> <ul style="list-style-type: none"> • The words “TAX INVOICE” in a prominent place. • Name, address and VAT registration number of the supplier. • Name, address and VAT registration number of the recipient. • Serial number and date of issue. • Full and proper description of goods and/or services supplied. • Quantity or volume of goods or services supplied. • Price & VAT. <p>Where the amount (including VAT) is less than R3 000 an <u>abridged tax invoice</u> may be issued which has the same requirements as above, except that the name, address and VAT registration number of the recipient and the quantity or volume do not need to be specified.</p>
Tax period	<p>There are five different tax periods as follows:</p> <ul style="list-style-type: none"> • Category A – two-monthly (ending at the end of every odd month). For example, Jan, Mar, May, July etc. • Category B – two-monthly (ending at the end of every even month). For example, February, April, June etc. • Category C – monthly (taxable supplies greater than R30 million in any consecutive period of 12 months). • Category D – six-monthly (certain farmers only – taxable supplies less than R1.5 million in any consecutive period of 12 months). • Category E – annually (only in exceptional circumstances for connected persons with only one transaction per consecutive period of 12 months). • Category F – four-monthly (small businesses only – taxable supplies less than R1.5 million in any consecutive period of 12 months).

Taxable supply This is a supply (including a zero-rated supply) which is chargeable with tax under the VAT Act. A taxable supply does not include any exempt supply listed in section 12 of the Act, even if supplied by a registered vendor.

There are two types of taxable supplies, namely:

- Those which attract the zero rate (listed in section 11).
- Those on which the standard rate of 14% must be charged.

Vendor This includes any person who is registered or is required to be registered for VAT. Therefore any person making taxable supplies in excess of the compulsory VAT registration threshold amount (presently R1 million) as prescribed in section 23 of the VAT Act, that person is a vendor, whether they have actually registered for VAT or not.

Welfare organisation This is any public benefit organisation contemplated in paragraph (a) of the definition of “public benefit organisation” in section 30(1) of the Income Tax Act, No. 58 of 1962 that has been approved by the Commissioner in terms of section 30(3) of that Act which carries on a welfare activity determined by the Minister to be of a philanthropic or benevolent nature, under the following headings:

- (a) Welfare and humanitarian.
- (b) Health care.
- (c) Land and housing.
- (d) Education and development.
- (e) Conservation, environment and animal welfare.

Welfare activities for VAT purposes are listed in the Regulation No. 112 in the *Government Gazette* No. 27235 issued on 11 February 2005. Welfare activities must be carried on by an association not for gain which is an approved PBO for income tax purposes before the organisation may qualify as a welfare organisation.

The [VAT 414 Guide](#) deals specifically with associations not for gain and welfare organisations.

Zero-rated supply A zero-rated supply is a taxable supply. These are all listed in section 11 of the VAT Act. The application of the zero rate is subject to the supplier retaining proper documentation justifying the application of this preferential rate of tax.

Examples of zero-rated **goods**:

- Goods exported to an address in an export country.
- Supply of an enterprise as a going concern.
- Gold supplied to banks.
- Certain supplies to farmers, for example, herbicides, animal feed etc. (*Refer to Schedule 2 Part A of VAT Act*).
- Fuel levy goods such as petrol, diesel and crude oil.
- Basic foodstuffs. For example, hen eggs, brown bread, fresh fruit/vegetables, tinned sardines etc. (*Refer to Schedule 2 Part B of VAT Act*).
- Supply of gold coins, that is, Kruger rands.
- Illuminating kerosene used for heating or lighting (may not be a mixed substance).

Examples of zero-rated **services**:

- International transportation of passengers or goods either to the RSA from any other country, or from the RSA to any other country, or between two countries outside RSA.
- Services physically rendered outside RSA.
- Certain services supplied to a non-resident who is outside the RSA at the time the services are rendered.
- Patents and other intellectual property rights for use outside the RSA.
- Grants received from government departments and municipalities for the purposes of assisting vendors to make taxable supplies.

CONTACT DETAILS

The [SARS website](#) contains contact details of all SARS branch offices and border posts.

Contact details appearing on the website under “Contact Us” (other than branch offices and border posts) are reproduced below for your convenience.

SARS Head Office

Physical Address

South African Revenue Service
Lehae La SARS
299 Bronkhorst Street
Nieuw Muckleneuk
0181
Pretoria

Postal Address

Private Bag X923
Pretoria
0001
South Africa

SARS website

www.sars.gov.za

Telephone

(012) 422 4000

SARS Fraud and Anti-Corruption hotline

0800 00 28 70

SARS Large Business Centre (LBC) Head Office

Physical Address

Megawatt Park
Maxwell Drive
Sunninghill
Johannesburg

Postal Address

Private Bag X170
Rivonia
2128
South Africa

Telephone

(011) 602 2010

email

LBC@sars.gov.za

For the contact details of regional LBC offices and each LBC sector go to “Contact Us” on SARS’ website the go to “SARS Large Business Centre”.

SARS Service Monitoring Office

Telephone

0860 12 12 16

Postal Address

PO Box 11616
Hatfield
0028
South Africa

Fax

(012) 431 9695

Website

www.sars.gov.za/ssmo

email

ssmo@sars.gov.za

eFiling

Call Centre

0800 00 72 77

Fax

(011) 6025312

Website

www.efiling.gov.za

email

eFilingAssist@sars.gov.za

National Call Centre / SARS Contact Centres

- You may contact SARS by phone, email, fax or visiting a SARS Branch:
- Call our SARS Contact Centre on 0800 00 7277
- International Callers may contact our Contact Centre on +27 11 602 2093
- National eFiling email address for specific eFiling enquiries: eFilingAssist@sars.gov.za
- Email or fax one of our dedicated four contact centres:

Area	Telephone	Fax	email
Northern South Africa Vendors residing in Gauteng north (including Centurion and Pretoria), North West, Mpumalanga and Limpopo.	0800 00 7277	012 6706880	Contact.north@sars.gov.za
Central South Africa Vendors residing in Gauteng south (including Midrand, the Greater Johannesburg area, Kempton Park, Boksburg, Vereeniging and Springs), the Free State and Northern Cape.	0800 00 7277	010 2085005	Contact.central@sars.gov.za
Eastern South Africa Vendors residing in KZN and northern parts of the Eastern Cape (up to and including East London).	0800 00 7277	031 3286018	Contact.east@sars.gov.za
Southern South Africa Vendors residing in the Eastern Cape, south of East London and the Western Cape.	0800 00 7277	021 4138905	Contact.south@sars.gov.za

Practitioners Unit

Telephone / Call Centre

0800 00 72 77

email
pcc.pavilion@sars.gov.za
Business hours

Weekdays 8:00 - 16:00 (except Wednesdays)
 Wednesdays 9:00 - 16:00

Physical Address

Pavilion
 226 Bronkhorst Street
 Nieuw Muckleneuk
 Pretoria

This facility is for Tax Practitioners already registered with SARS (Pretoria area only). Appointments can be made online by visiting: www.sars.gov.za, then go to the Tax Practitioners' web page.