

DRAFT INTERPRETATION NOTE

DATE:

ACT : VALUE-ADDED TAX ACT NO. 89 OF 1991 (the VAT Act)
SECTION : SECTION 10(18)
SUBJECT : VOUCHERS SUPPLIED AT A DISCOUNT

Preamble

In this Note unless the context indicates otherwise –

- “voucher” includes anything that evidences a right to receive unspecified goods or services to the extent of the monetary value stated on the voucher;
- “section” means a section of the VAT Act; and
- any word or expression bears the meaning ascribed to it in the VAT Act.

1. Purpose

This Note sets out the VAT implications of vouchers supplied at a discount.

2. Background

It is common for vouchers to be supplied to customers for a consideration less than the monetary value stated on the voucher. In other words, the voucher is supplied at a discount.

3. Issue

The issue under consideration is whether VAT must be accounted for on the –

- discounted amount paid for the voucher; or
- the stated monetary value of the voucher,

when the voucher is used as payment for a supply of goods or services.

4. Application of the law

4.1 Charging VAT

A vendor making a taxable supply of goods or services is required to levy VAT at the standard rate of 14% on the value of the supply of goods or services, unless the supply is zero-rated or exempt. In order to correctly apply the provisions of sections 7(1)(a), 11 or 12, the vendor must know the nature of the goods or services (that is, what rate of VAT must be levied).

4.2 Sale of a voucher

The Explanatory Memorandum on the Value-Added Tax Bill, 1991 acknowledged that the treatment of the supply of vouchers for VAT purposes differs in some respects from the treatment of the supply of other goods. In this regard, sections 10(18) and (19) specify a different value of supply rule. A distinction is therefore drawn between the two types of vouchers envisaged in sections 10(18) and (19), that is, one voucher entitles the holder thereof to unspecified goods or services whereas the other entitles the holder to specified goods or services. The discussion regarding the VAT implications of these vouchers is set out below.

Section 10(18)

According to the Explanatory Memorandum, the supply of vouchers, envisaged in section 10(18), is regarded as a medium of exchange similar to money. The supply of these vouchers will not be subject to VAT when sold and VAT only becomes payable when the holder of the voucher subsequently tenders the voucher as payment or part payment for goods or services supplied. VAT is therefore only levied on the supply of the goods or services. In this circumstance it is evident that the vendor supplying the vouchers is unable to apply the provisions of sections 7(1)(a), 11 or 12 as the nature of the future supply of goods or services is unknown (that is, the nature of the goods or service to be supplied only becomes known at the point when the voucher is redeemed as payment in respect of the supply of the goods or services).

The aforementioned approach is justifiable when consideration is given to the example of imposing 14% on the supply of the voucher which is subsequently redeemed to acquire zero-rated goods.

Despite the aforementioned, a vendor will be required to account for output tax on the supply of the voucher if the voucher is sold for a consideration which is in excess of the face value of the voucher. In these circumstances, the output tax liability is however only limited to the amount paid in excess of the face value of the voucher [that is, $14 / 114 \times (\text{consideration received less face value of the voucher})$].

Section 10(19)

Contrary to the aforementioned, vouchers falling within the scope of section 10(19) are subject to VAT at the time the voucher is supplied. This is due to the fact that the goods or services to be supplied in the future were specified on the voucher and the vendor is therefore able to establish the nature of the goods or services to be supplied and is adequately able to apply the provisions of sections 7(1)(a), 11 or 12. This accords with the time of supply rules in section 9(1), that is, the time of supply occurs at the earlier of an invoice being issued or payment being received in respect of a supply of goods or services. The value of the goods or services supplied upon the surrender of the voucher is regarded as nil.

4.3 Input tax

“Input tax” is defined in section 1(1) to include, amongst others, the tax charged under section 7 and is payable by a supplier on the supply of goods or services made by that supplier, if the goods or services concerned are acquired by the vendor wholly or partly (only to that extent) for the purpose of making taxable supplies. The vendor that supplies the voucher at a discount to its customer is not entitled to an input tax deduction in relation to the amount of the discount granted due to the

fact that the vendor does not acquire any goods or services when offering the discount.

Section 21(1) makes provision for certain adjustments which are aimed at rectifying the incorrect levying or accounting of VAT in respect of a taxable supply of goods or services which adjustments are evidenced by a credit or debit note issued in accordance with section 21(3). The discount offered on the supply of the voucher is not rectifying the incorrect levying or accounting of VAT in respect of a taxable supply of goods or services made by the vendor. In actual fact, the supply of the voucher is disregarded in terms of section 10(18). Such discount therefore does not fall within the scope of section 21(1) and no deduction is permissible in terms of section 16(3).

4.4 Examples

The following examples are illustrative of the VAT treatment of vouchers supplied at a discount. For the purpose of these examples, the term “discount voucher” refers to vouchers sold for a consideration which is less than the face value of the voucher.

Example 1 – Voucher redeemed for standard rated supplies

Background

A vendor supplies a voucher with a stated monetary value of R100 for R90 to a customer. The bearer of the voucher (for example, the customer) subsequently tenders the voucher as payment for the supply of goods, by that vendor, priced at R100 including VAT at the standard rate of 14%.

Question

What are the VAT implications of the above scenario?

Answer

- The vendor is not liable to levy or account for output tax on the supply of the voucher.
- The vendor is not entitled to an input tax deduction in relation to the R10 discount (that is, R100 less R90) granted on the supply of the voucher.
- The vendor must account for output tax of **R12,28** (that is, $R100 \times 14 / 114$) on the supply of the goods.

Example 2 – Voucher redeemed for both standard and zero-rated supplies

Background

A vendor supplies a voucher with a stated monetary value of R100 for R90 to a customer. The bearer of the voucher (for example, the customer) subsequently tenders the voucher as payment for the supply of goods, by that vendor, priced at R50 including VAT at 14%, as well as goods priced at R50 that are supplied at the zero rate.

Question

What are the VAT implications of the above scenario?

Answer

- The vendor is not liable to levy or account for output tax on the supply of the voucher.
- The vendor is not entitled to an input tax deduction in relation to the R10 discount (that is, R100 less R90) granted on the supply of the voucher.
- The vendor must levy and account for output tax of **R6,14** (that is, $R50 \times 14 / 114$) on the supply of the goods which is subject to VAT at the standard rate of 14%.
- The vendor must account for output tax of R0 on the supply of the goods which is zero-rated.

Example 3 – Partial redemption of a voucher*Background*

A vendor supplies a voucher with a stated monetary value of R200 for R180 to a customer. The bearer of the voucher (for example, the customer) subsequently tenders the voucher as payment for the supply of goods, by that vendor, that are priced at R150 including VAT at 14%. This is a partial redemption of the voucher.

Question

What are the VAT implications of the above scenario?

Answer

- The vendor is not liable to levy or account for output tax on the supply of the voucher.
- The vendor is not entitled to an input tax deduction in relation to the R20 discount (that is, R200 less R180) granted on the supply of the voucher.
- The vendor must account for output tax of **R18,42** ($R150 \times 14 / 114$) on the supply of the goods.
- The balance of R50 on the voucher or the cash payment of the R50 to the customer does not have any VAT implication at this stage.

Vouchers supplied by a third party

It is common in the retail industry for third parties to supply vouchers that will be used as payment on a supply of goods or services by independent retailers.

In this scenario, a third party supplies a voucher with a stated monetary value to a customer at a discount. The bearer of the voucher subsequently surrenders the voucher to a vendor as payment for the supply of goods or services. The vendor thereafter claims for reimbursement of the total face value of the voucher (that is, including the portion relating to the discount) from the third party that originally supplied the voucher to the customer.

Based on the aforementioned, the third party is not required to levy or account for VAT on the supply of the voucher to the customer. In addition, the third party that supplies the voucher at a discount to the customer, is not entitled to an input tax

deduction in relation to the amount of the discount granted on the supply of the voucher (see the discussion under **4.3**).

A vendor that receives a voucher from a customer as payment for the taxable supply of goods or services by the vendor, must levy and account for output tax on the value of the goods or services supplied.

The vendor's subsequent claim for a reimbursement of the total face value of the voucher (that is, including the portion relating to the discount) from the third party that originally supplied the voucher to the customer, is not subject to VAT as there is no supply of goods or services by the vendor to the third party.

Example 4 – Voucher supplied by a third party

Background

A third party supplies a voucher with a stated monetary value of R100 for R90 to a customer. The bearer of the voucher subsequently tenders the voucher to a vendor as payment for the supply of goods, by that vendor, priced at R100 including VAT at the standard rate of 14%. The third party thereafter pays the sum of R100 to the vendor.

Question

What are the VAT implications of the above scenario?

Answer

- The third party is not liable to levy or account for output tax on the supply of the voucher.
- The third party is not entitled to an input tax deduction in relation to the R10 discount (that is, R100 less R90) granted on the supply of the voucher.
- The vendor must account for output tax of **R12,28** (that is, $R100 \times 14 / 114$) on the supply of the goods.
- The payment of the R100 by the third party to the vendor will not have any VAT consequences.

5. Conclusion

The supply of a voucher which does not specify the goods or services to be supplied on redemption is disregarded for VAT purposes whereas the supply of a voucher which specifies the goods or services to be supplied on redemption is a taxable supply for VAT purposes.