VAT RULING: VR 001

DATE: 27 February 2024

ACT	**:**	**VALUE-ADDED TAX ACT 89 OF 1991 (VAT Act)**
SECTION	**:**	**SECTIONS 17(1) AND 41B**
SUBJECT	**:**	**APPORTIONMENT**

Preamble

This value-added tax (VAT) ruling is published with the consent of the Applicant to which it has been issued and is binding only upon the South African Revenue Service (SARS) and applies only to the Applicant. This VAT ruling is published for general information. It does not constitute a practice generally prevailing.

1. Summary

This VAT ruling approves the method of apportionment being the transaction-based method, which is applied to the Applicant, a private client wealth management business, offering specialised advisory services to high-net-worth individuals.

2. Relevant tax laws

In this VAT ruling, all references to sections hereinafter are to sections of the VAT Act unless otherwise stated. Unless the context indicates otherwise any word or expression in this VAT ruling bears the meaning ascribed to it in the VAT Act.

This VAT ruling concerns the interpretation and application of the following provisions of the VAT Act:

- Section 1(1)
- Section 16
- Section 17(1)

3. Parties to the application

The Applicant is a private client wealth management business, offering specialised advisory services to high-net-worth individuals.

4. Description of the transactions

The Applicant is a wealth management business which conducts the following activities:

- Offering specialised advisory services to high-net-worth individuals
- Client referrals to group companies
- Holding investments in subsidiaries

The following income streams are received:

- Advisory fees. Its objective is to create a solid sustainable fee-based income stream from advising clients
- Commissions from group companies for client referrals
- Interest income earned on surplus funds in its bank accounts
- The Applicant also receives dividend income from some of its subsidiary companies

The Commissioner for SARS (the Commissioner) is requested to issue a ruling under section 41B, read with section 17(1), confirming that the Applicant may apply the transaction-based method.

5. Conditions and assumptions

This VAT ruling is subject to the Standard Terms, Conditions and Assumptions issued by the Commissioner, and the provisions of Chapter 7 of the Tax Administration Act 28 of 2011, excluding sections 79(4)(*f*), (*k*), (6) and 81(1)(*b*).

6. Ruling

The VAT ruling made in connection with the transaction is as follows:

The Applicant may, for the purpose of determining the ratio to be applied to the VAT incurred relating to mixed expenses[1], apply the transaction-based method of apportionment as set out below:

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

where –

y =	The input recovery rate to be applied to VAT on mixed expenses
a =	The total number of transactions in respect of taxable supplies during the period
b =	The total number of transactions in respect of exempt supplies during the period
c =	The total number of transactions in respect of non-taxable supplies

[1] Refers to expenses incurred partly for making taxable supplies and partly for other non-taxable purposes (for example, exempt supplies or private use).

A transaction for purposes of calculating the apportionment ratio as set out in above is determined as follows:

Taxable supplies

- Advisory fees – these transactions are processed monthly based on advice provided to clients. The number of transactions that will be included as part of taxable income will be based on the fees processed monthly, that is, each fee receipted in the General Ledger (GL) will be counted as one transaction.
- Commissions and other income – this income is earned monthly based on client referrals. The number of transactions that will be included as part of taxable income will be based on the number of commissions recorded on the GL per month.

Exempt supplies

- Interest earned on surplus funds – The interest earned on surplus funds is processed once a month when the amount of interest on the balance in the account is allocated. The number of transactions that will be included as part of the exempt transactions annually in this instance will be twelve transactions.

Non–supplies

- Dividend income – Calculated as the greater of the actual dividend income received from the subsidiaries, that is, the number of transactions counted depending on the number of times dividends are receipted in GL, or a proxy for dividend income transactions from the subsidiaries, that is, an interim dividend and final dividend per subsidiary, which will amount to eight transactions per annum for the four subsidiaries.

7. Period for which this ruling is valid

This VAT ruling applies only in respect of the transactions set out above and is –

(a) valid from date of issue;

(b) applicable to tax periods commencing on or after 01 January 2023; and

(c) valid until 31 December 2026.

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