SARS
South African Revenue Service

VAT RULING: VR 007

DATE: 18 March 2024

ACT	**:**	**VALUE-ADDED TAX ACT 89 OF 1991 (the 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 SARS and applies only to the Applicant. This ruling is published for general information. It does not constitute a practice generally prevailing.

1. Summary

This ruling approves the method of apportionment being the varied turnover-based method which is applied to a vendor in the micro-lending industry.

2. Relevant tax laws

In this 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 ruling bears the meaning ascribed to it in the VAT Act.

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

- Section 1(1) – definition of "input tax"
- Section 16
- Section 17(1)

3. Parties to the application

The Applicant is a special purpose vehicle which purchases instalment credit agreements under a securitisation transaction.

4. Description of the transactions

The principal activity of the Applicant is to acquire and/or hold financial receivables and to issue notes in order to raise capital, to acquire, refinance and settle the receivables. The Applicant purchases instalment sale agreements from a financial services provider and trades in the micro-lending industry.

The following income streams are received:

- Fees under the National Credit Act 34 of 2005
- Early settlement fees

- Profit on settlement
- Interest income on instalment sale assets receivables

The Commissioner for SARS (the Commissioner) is requested to issue a ruling under section 41B, read with section 17(1), confirming that the vendor may apply the varied turnover-based method which includes all income streams with the following variations –

including –

- the proceeds from the sale of repossessed goods;
- dividend income, limiting to the taxable administrative support and the net interest margin (interest receipts that are reduced by the interest portion of the actual bad debts written off less interest paid);
- net interest margin (interest receipts that are reduced by the interest portion of the actual bad debts written off less interest paid);
- a three-year moving average of the net trading margin from financial asset trading activities (such as interest rate swaps), each amount to be included in the three-year moving average calculation expressed as an absolute, irrespective of whether it is a negative or a positive value;

excluding –

- the portion of the actual bad debts written off relating to the fee income;
- the capital value of all loans supplied in terms of the ICAs,

with effect from the commencement of the 2024 financial year.

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 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 varied turnover-based method of apportionment as set out below:

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

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

where –

y = Apportionment ratio/percentage

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

including –

- the proceeds from the sale of repossessed goods;
- reducing the fee income from ICAs by the portion of the actual bad debts written off relating to the fee income;
- early termination fees to the extent that the fee is for the supply of a service.

b = The value of all exempt supplies made during the period –

including –

- the net interest margin (that is, interest receipts that are reduced by the interest portion of the actual bad debts written off less interest paid);
- a three-year moving average of the net trading margin from financial asset trading activities (such as interest rate swaps), each amount to be included in the three-year moving average calculation expressed as an absolute, irrespective of whether it is a negative or a positive value;
- early termination fees to the extent that the fee is an interest adjustment;

excluding –

- the capital value of all loans.

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:

- All income streams should be taken into account when determining the apportionment ratio based on the formula above, except as otherwise provided in the formula. All the other notes in respect of the formula for the standard turnover-based method contained in BGR 16[2] shall apply.

7. Period for which this ruling is valid

This VAT ruling applies only in respect of the transaction(s) set out above and is –

(a) valid from date of issue;

(b) applicable to the financial year commencing on 1 July 2023; and

[2] Binding General Ruling (VAT): No. 16 (Issue 2) dated 30 March 2015.

(c) valid until 30 June 2026.

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