

VAT RULING: VR 010

DATE: 30 May 2025

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 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 a varied input-based method which is applied to the Applicant that is a South African short-term insurance company operating in the field of domestic and international credit insurance. The Applicant provides domestic and international trade credit insurance cover to its policyholders who sell goods or provide services to other businesses on credit terms in order to protect them against non-payment risks.

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

3. Parties to the application

The Applicant is a short-term insurance company operating in the field of domestic and international credit insurance.

4. Description of the transactions

The Applicant provides domestic and international trade credit insurance cover to its policyholders who sell goods or provide services to other businesses on credit terms in order to protect them against non-payment risks.

The Applicant conducts the following activities:

- Provides various surety and bonding services *via* its specialised business unit. Its speciality lies in the ability to secure relevant and vital information incorporated with market intelligence, as a tool for a synergistic communicate to support the business of its clients in both local and international markets.
- Has a specialised business salvage and recovery unit dedicated to dealing with intricate restructuring needed to ensure both their clients' and shareholders' interests are met.

The following income streams are received:

Taxable supplies

- Premium income (local and foreign)
- Reinsurance claims received
- Salvages received
- Commission income
- Administration fee income
- Credit limit fees

Exempt and non-taxable income

- Interest and other investment income
- Foreign indemnity receipts and salvages

The Commissioner for SARS (the Commissioner) is requested to issue a ruling in terms of section 41B, read with section 17(1) confirming that the Applicant may apply a varied input-based method with the following variations:

- Excluding the VAT incurred on expenses relating to reinsurance recoveries
- Excluding expenses incurred for salvage from the apportionment calculation
- Excluding the VAT incurred on expenses relating to foreign reinsurance recoveries

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 transactions are 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 input-based method of apportionment as set out below:

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

where –

y = Apportionment ratio/percentage;

a = VAT incurred on goods or services acquired wholly for purposes of making taxable supplies–

- excluding the VAT incurred on expenses relating to reinsurance recoveries (that is, reinsurance premiums);

b = VAT incurred on goods or services acquired wholly for purposes of making exempt supplies;

c = VAT incurred on goods or services acquired wholly for purposes of making non-supplies (that is, other than exempt or taxable) –

- excluding the VAT incurred on expenses relating to salvage; and
- excluding the VAT incurred on expenses relating to foreign reinsurance recoveries.

7. Period for which this ruling is valid

This VAT ruling applies only in respect of the transactions set out above and is valid from date of issue, applicable to tax periods commencing on or after 1 January 2024, and valid until 31 December 2026, or the date on which an industry method is issued, whichever is the earlier.

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