VAT RULING: VR 014

DATE: 9 January 2026

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 ruling is published for general information. It does not constitute a practice generally prevailing.

1. Summary

This VAT ruling approves the methods of apportionment being the page-space method and the varied turnover-based method which are applied by a vendor in the retail industry.

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 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 company incorporated under the laws of South Africa and resident of the Republic.

4. Description of the transactions

The Applicant is a home shopping retailer operating through multiple distribution channels. The Applicant sells goods to customers on store retail credit and direct payments.

The Applicant conducts the following activities:

(a) It has showrooms across the country where customers can view merchandise and decide whether they would want to place an order. Sales are not made at the showrooms as all orders must be made through the online platform or a call centre.

(b) The website and catalogues provide information about products and pricing, including basic credit sale details.

The following income streams are received:

(i) Sales of goods (wholly taxable supplies)

(ii) Initiation and service fees which constitute consideration for taxable supplies

(iii) Interest earned on credit sales – consideration for exempt supplies, resulting from the extension of credit under a contractual agreement

(iv) Occasional proceeds from the sale of irrecoverable debtors' book being consideration for the transfer of ownership of a debt security, deemed to be a financial services which is exempt from VAT (exempt supplies)

The Applicant classified its acquisitions of goods and services, that is, expenses, into five separate categories:

(aa) Category A: Goods and services which are used exclusively for the purposes of making taxable supplies, for which VAT incurred may be deducted in full as input tax.

(bb) Category B: Goods and services acquired for the purpose of making mixed supplies[1] in relation to the marketing cost centre (advertising spend cost centre).

(cc) Category C: Goods and services incurred in the course of making mixed supplies for the telemarking cost centre.

(dd) Category D: Goods and services incurred in the making of mixed supplies, relating to administrative and legal functions including billing, collections, customer analytics, legal activities.

(ee) Category E: Goods and services which are used exclusively for the making of exempt supplies and in respect of which the VAT incurred may not be deducted as input tax.

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 –

For Category B – apply the page space method of apportionment as set out below:

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

where –

y = Apportionment ratio/percentage;

[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 = The page space used in the catalogue to advertise the wholly taxable product; and

b = The page space used in the catalogue to advertise the instalment options on credit sales in respect of which interest is earned for the provision of credit (exempt supplies).

For Categories C and D – apply the turnover-based method of apportionment as set out below:

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

where –

y = 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, including a portion of the proceeds from the sale of irrecoverable debtors' book, calculated by multiplying the proceeds by the difference between the Prime Lending Rate and the Johannesburg Interbank Average Rate (JIBAR), and

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

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 28of 2011, excluding sections 79(4)(*f*), (*k*), (6) and 81(1)(*b*).

6. Ruling

The ruling made in connection with the Category B to Category D transactions, is as follows.

The Applicant may, for the purpose of determining the ratio to be applied to the VAT incurred relating to mixed expenses[2], apply the following methods of apportionment as set out below:

6.1 For Category B

Apply the page space method of apportionment as set out below:

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

where –

y = Apportionment ratio/percentage;

---

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

a = The page space used in the catalogue to advertise the wholly taxable product; and

b = The page space used in the catalogue to advertise instalment options for credit sales in respect of which interest is earned for the provision of credit (exempt supplies).

6.2 Categories C and D

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

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

where –

y = 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 including a portion of the proceeds from the sale of irrecoverable debtors' book, calculated by multiplying the proceeds by the difference between the Prime Lending Rate and JIBAR; and

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

Note:

1) 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.
2) All the other notes in respect of the formula for the standard turnover-based method contained in BGR 16[3] shall apply (where applicable).

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 01 January 2024; and
- valid until 31 December 2026.

Leveraged Legal Products: Indirect Taxes
SOUTH AFRICAN REVENUE SERVICE

[3] Binding General Ruling 16 "Standard Turnover-Based Method of Apportionment".