

VAT RULING: VR 016

DATE: 31 March 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 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 varied turnover-based method, which is applied by the Applicant. The Applicant is one of South Africa's largest retailers that offers a comprehensive portfolio of retail brands.

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 South African resident private company, wholly owned by its listed holding company.

4. Description of the transactions

The Applicant is a retail company that sells a broad range of merchandise to customers in-store and online. These include clothing, footwear, jewellery, sportswear, mobile phones, technology products, homeware and furniture. The brands cater to customers across value to upper market segments. The financial year-end of the Applicant is 31 March.

The Applicant sells the merchandise either on cash or on credit. Credit is provided on a six or 12-month basis, with interest accumulating on outstanding balances and debt collection fees earned on overdue accounts. The six-month payment option is interest free subject to the customer paying each instalment in full and on time. For the 12-month payment option, interest applies to the outstanding amount.

Various debt collections strategies are employed in relation to credit customers that involves actions such as sending e-mails and making telephone calls.

The Applicant considers the number of payment cycles that have lapsed since the last qualifying payment has been received to calculate write-offs in respect of trade receivables. No income (including collection fees) is recognised in respect of accounts if 40% of the instalments are paid more than four months ago (or more) (RD 4 or higher).

The Applicant also holds investments and provides intercompany loans to subsidiaries, as well as maintains bank accounts.

The following income streams are received in respect of the activities conducted:

- (i) Trading income from the sale of merchandise to customers (taxable income)
- (ii) Interest from the following (exempt income):
 - Surplus cash in bank accounts
 - Favourable inter-company loan balances
 - Outstanding debtor's balances
- (iii) Dividend income from group companies (Other/Out of scope income)
- (iv) Fees (debt collection fees) recovered from collection activities relating to trade receivables (that is, customer arrears) in terms of the National Credit Act 34 of 2005 (Other/Out of scope income)

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 varied turnover-based method with effect from the commencement of the 2023 financial year, which includes operational and non-operational income with the following variations:

Including –

- a) dividend income received from subsidiaries calculated based on the difference between the Prime Interest Rate less the Johannesburg Interbank Average Rate (JIBAR) multiplied by the amount of dividends received; and
- b) a proxy to reflect the debt collection activity¹, calculated as the average collection fee charged per collection activity for that financial year multiplied by the number of credit customers in arrears at every payment cycle in the financial period, excluding customers with four or higher payment cycles that have lapsed since the last qualifying payment has been received;

¹ The fee is not consideration in respect of a supply, and effort expended to collect the debt is not equal to the gross fee.

Excluding –

- a) interest received on current accounts with financial institutions which are used for the day-to-day operations of the Applicant.

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 expenses², 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 made during the period;
- b = The value of all exempt supplies made during the period, excluding bank interest received on current accounts with financial institutions which are used for the day-to-day operations of the Applicant;
- 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), including –
 - a percentage of dividend income received from subsidiaries, calculated based on the difference between the Prime Interest Rate and JIBAR³. If no dividend income was received for a particular year, the dividend inclusion should be calculated based on the average over a three-year period (that is, the current and the preceding two years) multiplied with the difference between the Prime Interest Rate and JIBAR; and
 - the inclusion of a proxy for collection fees⁴ calculated as the average collection fee charged per collection activity for that financial year multiplied by the number of credit customers in arrears at every payment cycle in the financial period, excluding customers classified as RD 4 or higher.

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

³ Johannesburg Interbank Average Rate.

⁴ The collection fees earned are not consideration for any goods or services supplied by the Applicant to its customers.

7. Period for which this ruling is valid

This VAT ruling applies only in respect of the transactions set out above and is effective from 1 April 2022⁵ until 31 March 2025.

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⁵ The ruling application was received on the 31st of March 2023.