

VAT RULING: VR 018

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 transaction count-based method, to be applied by the Applicant, that is a company which operates in the financial services industry, specifically within the foreign exchange and money transfer sector.

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 private company that is incorporated in and a resident of South Africa (the Republic).

4. Description of the transactions

The Applicant is a company that conducts the business of providing money transfer services in partnership with one of the largest international money transfer service providers in the world. The financial year-end of the Applicant is February. The Applicant provides the money transfer service through mobile application software, which includes facilitating immediate remittance to cash pick-ups, mobile wallets and bank deposits.

The Applicant, in providing money transfer services, enters into two types of transactions:

- a) Outbound transactions – money is sent from the Republic to another country; and
- b) Inbound transactions – money is transferred to the Republic from another country.

Having regard to the above, the supplies can be easily identified as taxable and exempt or non-taxable, the transactions can be separately identified and counted, and the majority of the costs incurred by the Applicant are equally and simultaneously for the purpose of making both taxable and exempt supplies.

The Applicant's income streams from conducting its mobile money transfer activities are as follows:

- (i) Transaction fee (commission) from inbound and outbound transactions
- (ii) Profit on foreign exchange, that is, the difference between the buy and sell rates for the foreign currency being exchanged (forex margin)
- (iii) Interest income from bank accounts
- (iv) The sale of equipment
- (v) Gains on foreign exchange balances
- (vi) Transfer pricing revenue from its shareholder company.

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 transaction count-based method, as is set out in paragraph 6 below, with effect from the commencement of the Applicant's 2024 financial year, which includes operational and non-operational income without variations.

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-use expenses¹ apply the transaction count-based method as set out below:

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

where –

$$y = \text{Apportionment ratio/percentage;}$$

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 total number of taxable income transactions for the period;
- b = The total number of exempt income transactions for the period;
and
- c = The total number of other income transactions not included in “a” or “b” in the formula, which were generated during the period (whether in respect of a supply or not).

For the purposes of the approved transaction count-based apportionment method, the following principles² must be applied when determining the total number of transactions to be used in the apportionment formula:

- a) Exchange of currency – the exchange of currency is an exempt financial service unless it qualifies for zero-rating. Therefore, an exempt transaction is counted for each exchange of currency, unless it qualifies for zero-rating in which case a taxable transaction is counted;
- b) Fees earned on exchange and remittance of currency for outbound transactions – a taxable transaction is counted for each fee/commission charged on the exchange and remittance of currency;
- c) Fees earned on inbound remittances – a taxable transaction is counted for each fee/commission charged on the exchange and remittance of currency;
- d) Interest earned – an exempt transaction is counted on a monthly basis on each bank account on which interest is earned; and
- e) Other income – one transaction is counted each time an amount of income is received or earned, and this is either counted as “a”, “b” or “c” depending on the nature of the income received.

Notes:

1. The term "transaction" must be determined with reference to the principles set out above but is not limited to only those transactions specified in that paragraph.
2. The apportionment percentage should be rounded off to two decimal places.

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 March 2023³ until 28 February 2026.

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² These principles are set out for the purposes of determining the manner in which transactions may be counted and should not be regarded as confirmation of the taxable or non-taxable nature of the supply made or whether such supply may be zero rated.

³ The ruling application was received on the 22nd of June 2023.