South African Revenue Service

**VAT RULING: VR 021**

DATE: 28 April 2026

**ACT : VALUE-ADDED TAX ACT 89 OF 1991 (the VAT Act)**
**SECTION : SECTIONS 1(1), 7(1)(*a*), 8(5A), 11(2)(*t*), 16(2)(*a*) AND 16(3)(*a*)(i)**
**SUBJECT : VAT TREATMENT OF DONOR FUNDS**

***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 ruling clarifies the VAT consequences of discretionary grant funding received from a registered Sector Education and Training Authority (SETA).

## 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): “grant”
- Section 8(5A)
- Section 11(2)(*t*)
- 7(1)(*a*)
- 16(2)(*a*)
- 16(3)(*a*)(i)

## 3. Parties to the application

The Applicant is a is a Public Higher Educational Institution.

**4. Background and facts**

The Applicant is a juristic person established in terms of the Higher Education Act 101 of 1997.

The SETA is established in terms of the Skills Development Act 97 of 1998 (SDA), and a public entity listed in schedule 3A to the Public Finance Management Act 1 of 1999 (PFMA), whose activities and programmes are based on the National Development Plan, its five-year Strategic Plan and its Sector Skills Plan (SSP). The SETA is governed by, amongst others, the SDA and the Skills Development Levies Act 9 of 1999.

The SETA calls for discretionary grant applications from its stakeholders on an annual basis to meet the requirements of its Annual Performance Plan, and broader Strategic Plan.

The Applicant responded to a call by a registered SETA for discretionary grant funding related to the design, implementation, and evaluation of a postgraduate fellowship initiative that seeks to provide new product manufacturing opportunities in the Republic.

The Memorandum of Agreement (MoA) sets out the terms for the discretionary grant funding provided by the SETA to the Applicant, which is aimed at covering the costs related to the bursaries and project running costs of the post graduate students participating in the aforementioned initiative.

The parties' respective responsibilities are set out in the MoA as follows:

The SETA will fund all costs listed in the MoA. SETA must make timely payments to the Applicant. SETA will take part in committee activities. It will also share project outcomes with stakeholders in education, training, and skills development.

The Applicant must manage milestones and deliverables as set out in Annexure A to the MoA and the approved implementation plan. The Applicant must participate in committee activities and is required to submit quarterly reports in the SETA's prescribed format. The Applicant should contribute to evaluation studies and publications if needed. Funds must be used only for the project. The Applicant must complete all outstanding work according to the National Skills Development Plan and the SETA's Strategic Plan.

The MoA contains a breakdown of the purposes for which the Applicant will use the grant from a SETA, as well as the initiative's milestones (referred to as 'workstreams') at which a registered SETA will disburse specific amounts. The workstreams are summarised as follows:

a) Program Management, Stakeholder Management, Events and Fellowship Solution Integration (inc. University Levy).

b) Student Recruitment and Registration.

c) Review of existing four courses and development of one new course (credentials).

d) Development of bespoke wrap-around support system aimed to guide students in the technology readiness levels leading to successful industrialisation.

e) Delivery of five courses (credentials) over the period of the project across all students.

## 5. Conditions and assumptions

This VAT ruling is subject to the Standard Terms, Conditions and Assumptions issued by the Commissioner for SARS, 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

a) The discretionary grant funding allocated to Milestone 2 and Milestone 5 constitute consideration for exempt educational services provided by the Applicant under section 12(*h*)(i)(*bb*). The Applicant is not entitled to deduct input tax on expenditure directly attributable to these milestones.

b) The discretionary grant funding allocated to Milestone 1, Milestone 3, and Milestone 4 constitute consideration for the supply of services. The payments do not constitute a “grant” as defined in section 1(1). It follows that section 8(5A) read with section 11(2)(*t*) does not apply. The services supplied to a registered SETA can therefore not be zero-rated and are subject to output tax at the standard rate under section 7(1)(*a*). All expenditure incurred that is directly attributable to these milestones may be deducted by the Applicant as “input tax” as defined in section 1(1) under section 16(3), subject to sections 16(2), 17 and 20.

## 7. Period for which this ruling is valid

This VAT ruling applies only in respect of the transaction(s) set out above and is effective from 06 May 2024.

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