

DRAFT INTERPRETATION NOTE

DATE:

ACT : VALUE-ADDED TAX ACT NO. 89 OF 1991
SECTION : SECTION 10(18), (19) and (20)
SUBJECT : VALUE-ADDED TAX TREATMENT OF VOUCHERS

Preamble

In this Note unless the context indicates otherwise –

- “**voucher**” includes any token or stamp;
- “**section**” means a section of the VAT Act;
- “**VAT Act**” means the Value-Added Tax Act No. 89 of 1981; and
- any word or expression bears the meaning ascribed to it in the VAT Act.

1. Purpose

This Note provides clarity on what constitutes a voucher and the concomitant value-added tax (VAT) treatment. It does not cover the VAT treatment of telecommunication vouchers.

2. Background

Vouchers have become a widely used commodity for the payment or acquisition of goods and services. A wide variety of vouchers are currently available and they differ in form, value as well as the goods or services to which the holder may be entitled upon redemption.

These different variations result in different accounting and VAT treatment. The interpretation and application of the terms “supply” and “consideration” are of utmost importance when considering the VAT implications of the various types of vouchers.

3. The law

For ease of reference the relevant sections of the Act are quoted in the **Annexure**.

4. Application of the law

The VAT Act distinguishes between three types of vouchers and each voucher has different VAT consequences. In this regard, section 10(18), (19) and (20) make provision for the VAT treatment of three specific categories of vouchers:

- Monetary vouchers (see **4.2**)
- Product-specific vouchers (see **4.3**)
- Discount vouchers (see **4.4**)

4.1 What is a voucher?

A voucher contemplated in section 10(18) or (19) requires the monetary value or the specified goods or services to be stated on the voucher. However, with the latest technological developments in vouchers, the face value or the specified goods or services is electronically loaded when the voucher is issued in a card form and as a result, the details are not reflected on the face of the card. The holder of the voucher has the option of 'swiping' the card when the holder wants to redeem such voucher.

Despite the value or the specified goods or services not being reflected on the face of the card, the view is held that the electronic loading of this information satisfies the provisions of section 10(18) and (19).

4.2 Monetary voucher [section 10(18)]

The supply of a voucher, envisaged in section 10(18), is for unspecified goods or services to be supplied in the future. As the nature of the goods or services to be supplied on redemption of the voucher is not known at the time of sale of the voucher, the rate of tax that should be applicable to the supply cannot be determined.

In light of this, the supply of these vouchers is not a supply for VAT purposes and therefore not subject to VAT when sold. Output tax is levied on the supply of goods or services when the voucher is used as payment. VAT is levied on the supply of the goods or services and not on the voucher.

Despite the aforementioned, a vendor is required to account for output tax if the monetary voucher is sold for a consideration in excess of the face value. In these circumstances, the output tax liability on the supply of the voucher is limited to the amount paid in excess of the face value of the voucher [that is, $14 / 114 \times$ (consideration received less face value of the voucher)].

Example 1 – Supply of a voucher

Facts 1:

B purchases a monetary voucher from Vendor X to the value of R500 which B intends to redeem for standard-rated goods or services. The voucher is purchased for R500 and B redeems the voucher for standard-rated goods to the value of R500.

Result 1:

- No output tax is payable by Vendor X at the time that the voucher is sold under section 10(18).
- Vendor X must account for output tax of R61,40 ($R500 \times 14 / 114$) on the sale of the goods or services.

Facts 2:

The voucher is acquired for R400 with a face value of R500 by B and subsequently redeemed to acquire standard-rated goods to the value of R500.

Result 2:

- No output tax is payable by Vendor X at the time that the voucher is sold under section 10(18).

- Vendor X must account for output tax of R61,40 ($R500 \times 14 / 114$) on the sale of the goods.
- Vendor X is not entitled to an input tax adjustment for the R100 discount granted when the voucher was sold.

4.3 Product-specific vouchers [section 10(19)]

Vouchers falling within the scope of section 10(19) are subject to VAT at the time the voucher is sold. This is due to the fact that the goods or services to be supplied are specified on the voucher [that is, the vendor is able to establish the nature of the goods or services to be supplied and the applicable VAT rate]. As a result of the VAT being accounted for when the voucher is sold, the value of the goods or services actually supplied upon the surrender of the voucher is regarded as nil.

Example 2 – Redemption of a product-specific voucher

Facts:

B acquired a voucher of R570 for a hot stone massage from the spa (a registered VAT vendor) valued at R570 (including VAT).

Result:

The spa must account for output tax of R70 ($R570 \times 14 / 114$) on the sale of the product specific voucher under section 10(19) in the tax period in which it was sold.

No output tax is to be accounted for at the time that the services are rendered, as it was declared when the voucher was sold.

4.4 Discount vouchers [section 10(20)]

Discount vouchers are often included in newspapers and magazines or provided as a result of in-store promotions. This type of voucher is usually issued by the manufacturer or service provider who would reimburse the supplier of the goods or services with the value offered by such discount upon redemption of the voucher. No consideration is paid for the voucher. This voucher provides the holder with the right to a discount on specified goods or services. In practice, the supplier of the goods or services (that is, not the issuer of the voucher) must give the discount when it supplies the goods or services to its customer who presents the voucher. The supplier, being a vendor, making the supply of the goods or services must not reduce the value of the supply by the discount being given to its customer. In other words, the supplier is liable to levy VAT on the full value of the goods or services before the discount is taken into account and such VAT must be paid over to SARS.

The manufacturer or service provider, being a vendor, that issued the voucher as contemplated in section 10(20) is, under section 16(3)(i) entitled to deduct an amount¹ as input tax by applying the tax fraction (14/114) to any payments made to the supplier who honoured the voucher. The deduction compensates the manufacturer or service provider for the discount granted to the holder of the

¹ For the purposes of this Note, any reference to a vendor being entitled to an input tax deduction or any other deduction would be subject to the vendor complying with the provisions of section 16(3) read with the definition of the term "input tax" and sections 16(2), 17 and 20.

voucher. This deduction is however limited to the discount given on goods or services charged with VAT at the standard rate.

Example 3 – Discount voucher

Facts:

Vendor A, a manufacturer of a new toothpaste brand, advertises in the local newspaper that people purchasing its new toothpaste are entitled to a discount of R2 upon presentation of the discount voucher at the time of purchase. C, the holder of the discount voucher, purchases the new toothpaste brand from Vendor B for the purchase price of R14 and presents the voucher which entitles C to the R2 discount.

Result:

- Vendor A will not account for output tax upon issuing the voucher as the voucher was issued for no consideration under section 10(20).
- Vendor B will account for output tax of R1,72 ($R14 \times 14 / 114$) on the sale of the toothpaste.
- Vendor A will reimburse vendor B with R2 for the discount voucher allowed and will be entitled to a deduction of 25 cents ($R2 \times 14 / 114$) under section 16(3)(i).
- Vendor B has no output tax liability in relation to the R2 reimbursement received from Vendor A.

4.5 Commissions or fees

Third parties (agents or operators) are sometimes appointed by suppliers of monetary or product specific vouchers to facilitate the supply of these vouchers. In this regard, the third parties are usually paid a commission for facilitating the sale of the vouchers. The payment of the commission is consideration for a separate supply of services made by the agent or operator to the supplier of the voucher.

The commission charged by the agent or operator is subject to VAT at the standard rate as is illustrated in Example 5.

4.6 Monetary value vouchers issued and supplied by third parties

It is common in the retail industry for a third party to issue and supply a voucher which is subsequently redeemed at another person. This is largely prevalent in large shopping malls where the operator or manager of the shopping mall issues and supplies a voucher that can be redeemed for goods or services at any retail outlet within that shopping mall. Once the voucher is redeemed at any of the retailers, the operating or managing company reimburses the retailer for the value of the voucher that has been honoured by the retailer.

The monetary voucher sold by the operator or manager of the shopping mall falls within the ambit of section 10(18) as it would entitle the holder to unspecified goods or services. As such, the sale of the voucher by the operator or manager of the shopping mall is not a supply for VAT purposes. The retailer, being a vendor, who redeems the voucher for goods or services supplied must account for output tax on the supply of goods or services at the applicable tax rate. The subsequent

reimbursement by the operator or manager of the shopping mall to the vendor has no VAT implications.

Example 4 – Purchase of a voucher

Facts:

A purchases a voucher for R500 from Fashion Mall that may be redeemed at any of the fashion retailers within the mall.

Result:

- Fashion Mall is not liable to account for output tax on the supply of the voucher.
- Output tax of R61.40 ($R500 \times 14 / 114$) must be declared by the fashion retailer on the goods or services supplied when A decides to redeem the voucher as payment for the supply.
- The mall will reimburse the fashion retailer for the value of the monetary voucher. There are no VAT implications for the reimbursement of the voucher by the mall to the fashion retailer.

4.7 Agent or principal agreements

Vouchers, enabling the holder thereof to acquire goods or services at discounted rates, may also be sold, amongst other things, via vendors' websites.

4.7.1 As agent on behalf of the supplier

The vendor (that is, the operator) would, in some instances, facilitate the sale and collection of payment of the vouchers and merely acts as an agent on behalf of the supplier. In these circumstances, section 54(1) states that the supply of goods or services made by an agent on behalf of another vendor who would be the principal, is deemed to be made by the principal and not the agent.

Supply of voucher

The type of voucher sold by the operator will determine the VAT treatment of the sale of the voucher. No output tax is to be accounted for by the supplier under section 10(18) should the sale be that of a monetary voucher as discussed in **4.2**.

The sale of a product-specific voucher will however result in the supplier of the goods or services being required to account for output tax under section 10(19) in the tax period in which the voucher is sold by the operator as discussed in **4.3**.

Commission

The services of the operator are commission-based, that is, the operator would retain a percentage of the funds collected, as agreed by the parties, as payment for its services rendered to the supplier as discussed in **4.5**.

The payment of the commission by the supplier to the operator is consideration for a separate supply of services made by the operator. The operator must therefore account for output tax on its commission in the tax period in which payment for the commission is received or an invoice is issued, whichever time is earlier.

Example 5 – Purchase of a voucher via internet deals*Facts:*

The vendor (an operator) and the spa (a VAT vendor) enter into an agreement whereby the operator sells vouchers for spa treatments as an agent on behalf of the spa and in return is entitled to a 10% commission. A purchases a voucher from the operator for R400 which entitles A to a massage at the spa worth R500.

Result:

- The spa is liable to account for output tax of R49,12 ($R400 \times 14 / 114$) for the sale of the voucher to A in the tax period which the operator sells the voucher to A. The operator is required to issue a statement to the spa under section 54(3)² stating all the sales made on behalf of the spa.
- The operator must account for output tax of R4,91 ($R40 \times 14 / 114$) on the commission charged to the spa for services rendered at the earlier of when consideration is received or an invoice is issued. The spa will be entitled to an input tax deduction of R4,91 on the commission paid.

4.7.2 As principal

Operators also sell vouchers which entitle the holder to specific goods or services to be provided by another vendor (retailer). The operator enters into a service level agreement or contract with the retailer for the supply of goods or services at discounted amounts. In terms of the agreement, the retailer would provide the holder of the voucher with the specified goods or services upon redemption of the voucher. The operator would, subsequent to the redemption of the voucher, pay the retailer for the goods or services supplied to the operator but delivered or rendered to the holder.

Supply of voucher by the operator

The sale of a product-specific voucher by the operator will result in the operator accounting for output tax in the tax period in which the voucher is sold by the operator, as discussed in **4.3**.

Redemption of the voucher

The operator is not required to account for output tax on redemption of the voucher as output tax was accounted for when the product specific voucher was sold.

Supply of services by the retailer

The retailer must, under section 7(1)(a), account for output tax on the supply of goods or services to the operator at the earlier of when an invoice is issued or payment is received. The operator will be entitled to deduct input tax on the services acquired from the retailer.

² The statement must contain a full and proper description and quantity of goods or services supplied, and the value and VAT charged for those supplies.

Example 6 – Sale of vouchers by an operator*Facts:*

Two vendors, an operator and Restaurant X enter into an agreement whereby the operator sells vouchers for R50 entitling the holder of the voucher to specific meals to be provided by Restaurant X. The operator will only reimburse Restaurant X R45 per voucher redeemed. In January 2014 the operator sells 100 vouchers which customers must redeem by 28 February 2014. Thirty vouchers are redeemed in January and 50 in February.

Result:

- The operator must account for output tax of R614,04 $[(R50 \times 100) \times 14 / 114]$ in the January 2014 tax period for the sale of the vouchers under section 7(1)(a) read with section 10(19).
- Restaurant X invoices the operator for the meals supplied for the vouchers redeemed in each period and therefore account for output tax amounting to R165,79 $[(R45 \times 30) \times 14 / 114]$ in January 2014 and R276,32 $[(R45 \times 50) \times 14 / 114]$ in February 2014.
- The operator is entitled to an input tax deduction of R165,79 $[(R45 \times 30) \times 14 / 114]$ in January 2014 and R276,32 $[(R45 \times 50) \times 14 / 114]$ in February 2014 for the services procured from Restaurant X.
- There are no VAT implications for the vouchers not redeemed by the clients as the output tax was already declared by the operator when they were sold.

4.8 Cash-back voucher

A cash-back voucher is generally provided to customers as part of promotions or marketing schemes operated by retailers when certain goods or services are purchased from such retailers. The voucher may not have limitations as to how it is spent by the holder and may in some instances be redeemed for cash.

In the event that the issuing of the cash back voucher falls within the ambit of section 21, the vendor must issue a credit note in accordance with the relevant provisions of section 21. In the alternative, should the cash back voucher not fall within the ambit of section 21, the issue and redemption of the voucher has no VAT implications.

Example 7 – Cash-back voucher*Facts 1:*

General Store, a vendor, gives B a cash-back voucher of R1 000 upon the purchase of selected goods valued at R5 000. This cash-back voucher does not fall within the ambit of section 21. B can only redeem the voucher for R1 000 cash at General Store. B decides to redeem the voucher for cash and not acquire any further goods from General Store.

Result 1:

- General Store, as a vendor, must account for output tax on the supply of goods to B, that is, R614,04 $(R5\ 000 \times 14 / 114)$.

- There are no VAT implications for General Store for the issue and redemption of the voucher for cash.

Facts 2:

Contrary to scenario 1, B redeems the voucher and decides to acquire goods to the value of R500 (including VAT of 14%) and retain the balance of R500.

Result 2:

- General Store, as a vendor, must account for output tax on the supply of goods to B, that is, R614,04 ($R5\,000 \times 14 / 114$).
- There are no VAT implications for General Store for the issue and redemption of the voucher for cash.
- As B has redeemed 50% of the voucher for goods acquired at General Store, General Store must therefore account for output tax of R61,40 ($R500 \times 14 / 114$) for the goods sold.
- There are no VAT implications for General Store for the remaining 50% cash.

4.9 Vouchers given to employees by employers

A fringe benefit arises under the Seventh Schedule to the Income Tax Act No. 58 of 1962 when an employer makes a supply of enterprise assets (or the use these assets) to an employee for no charge, or for a charge which is less than the cash equivalent. As a general rule, a fringe benefit is a supply of goods or services made in the course or furtherance of a vendor's enterprise under section 18(3) (unless it is a cash loan or other exempt supply).

The cash equivalent of the monetary voucher or a product-specific voucher (that is, a product specific voucher that will be redeemed by another person) will be considered as remuneration paid to the employee and will not be subject to the provisions of the VAT Act under proviso (iii)(aa) of the definition of an "enterprise". Therefore no output tax is to be accounted for by the employer. In these instances, the employer is precluded from deducting input tax on the acquisition of such vouchers.

5. Conclusion

This Note sets out the VAT treatment of the sale and redemption of the various types of vouchers. In this regard, the sale of a monetary voucher is disregarded for VAT purposes at the point of sale as opposed to the sale of a product-specific voucher where VAT is accounted for at the point of sale. In addition, an output tax liability only arises when the consideration charged for a monetary voucher exceeds the face value of the voucher. Output tax in this instance is however limited to the extent of the amount paid in excess of the face value of the voucher.

Vouchers envisaged under section 10(20) do not reduce the value of the supply of goods or services made by a supplier when the voucher is redeemed. The issuer of the voucher is entitled to a deduction under section 16(3)(i) by applying the tax fraction (14/114) to any payments made to the supplier who honoured the voucher in respect of a standard supply.

The payment of any commission or fees to an agent or operator for facilitating the supply of the vouchers is consideration for a separate supply of services made by the agent or operator and subject to VAT if supplied by a vendor.

Cash-back vouchers that fall within the ambit of section 21 must be evidenced by a credit note in order to qualify for an input tax deduction.

In the event that this Note does not deal with a specific transaction, it is recommended that application is made for a VAT ruling or VAT class ruling by sending an e-mail to **VATRulings@sars.gov.za** or by facsimile to 086 540 9390. The application should consist of a completed VAT301 form and must comply with the provisions of section 79 of the Tax Administration Act, 2011 excluding section 79(4)(f), (k) and (6).

Legal and Policy Division
SOUTH AFRICAN REVENUE SERVICE

Annexure – The law**Section 1(1) – Definitions**

“consideration”, in relation to the supply of goods or services to any person, includes any payment made or to be made (including any deposit on any returnable container and tax), whether in money or otherwise, or any act or forbearance, whether or not voluntary, in respect of, in response to, or for the inducement of, the supply of any goods or services, whether by that person or by any other person, but does not include any payment made by any person as a donation to any association not for gain: Provided that a deposit (other than a deposit on a returnable container), whether refundable or not, given in respect of a supply of goods or services shall not be considered as payment made for the supply unless and until the supplier applies the deposit as consideration for the supply or such deposit is forfeited;

“input tax”, in relation to a vendor, means—

- (a) tax charged under section 7 and payable in terms of that section by—
 - (i) a supplier on the supply of goods or services made by that supplier to the vendor; or
 - (ii) the vendor on the importation of goods by him; or
 - (iii) the vendor under the provisions of section 7(3);
- (b) an amount equal to the tax fraction (being the tax fraction applicable at the time the supply is deemed to have taken place) of the lesser of any consideration in money given by the vendor for or the open market value of the supply (not being a taxable supply) to him by way of a sale on or after the commencement date by a resident of the Republic (other than a person or diplomatic or consular mission of a foreign country established in the Republic that was granted relief, by way of a refund of tax as contemplated in section 68) of any second-hand goods situated in the Republic; and
- (c) an amount equal to the tax fraction of the consideration in money deemed by section 10(16) to be for the supply (not being a taxable supply) by a debtor to the vendor of goods repossessed under an instalment credit agreement: Provided that the tax fraction applicable under this paragraph shall be the tax fraction applicable at the time of supply of the goods to the debtor under such agreement as contemplated in section 9(3)(c),

where the goods or services concerned are acquired by the vendor wholly for the purpose of consumption, use or supply in the course of making taxable supplies or, where the goods or services are acquired by the vendor partly for such purpose, to the extent (as determined in accordance with the provisions of section 17) that the goods or services concerned are acquired by the vendor for such purpose;

“services” means anything done or to be done, including the granting, assignment, cession or surrender of any right or the making available of any facility or advantage, but excluding a supply of goods, money or any stamp, form or card contemplated in paragraph (c) of the definition of “goods”;

“supply” includes performance in terms of a sale, rental agreement, instalment credit agreement and all other forms of supply, whether voluntary, compulsory or by operation of law, irrespective of where the supply is effected, and any derivative of “supply” shall be construed accordingly;

“taxable supply” means any supply of goods or services which is chargeable with tax under the provisions of section 7(1)(a), including tax chargeable at the rate of zero per cent under section 11;

Section 7 – Imposition of value-added tax

(1) Subject to the exemptions, exceptions, deductions and adjustments provided for in this Act, there shall be levied and paid for the benefit of the National Revenue Fund a tax, to be known as the value-added tax—

- (a) on the supply by any vendor of goods or services supplied by him on or after the commencement date in the course or furtherance of any enterprise carried on by him;

Section 10 – Value of supply of goods or services

(18) Where a right to receive goods or services to the extent of a monetary value stated on any token, voucher or stamp (other than a postage stamp as defined in section 1 of the Postal Services Act, 1998, and any token, voucher or stamp contemplated in subsection (19)) is granted for a consideration in money, the supply of such token, voucher or stamp is disregarded for the purposes of this Act, except to the extent (if any) that such consideration exceeds such monetary value.

(19) Where any token, voucher or stamp (other than a postage stamp as defined in section 1 of the Postal Services Act, 1998) is issued for a consideration in money and the holder thereof is entitled on the surrender thereof to receive goods or services specified on such token, voucher or stamp or which by usage or arrangement entitles the holder to specified goods or services, without any further charge, the value of the supply of the goods or services made upon the surrender of such token, voucher or stamp is regarded as nil.

(20) Where any token, voucher or stamp is issued by any vendor for no consideration and the holder thereof is entitled on surrender thereof to another person, being the supplier of goods or services, to a discount on the price of goods or services supplied to the holder, the consideration in money for the supply of such goods or services shall be deemed to include the monetary value stated on such token, voucher or stamp: Provided that such monetary value shall be deemed to include tax.

Section 16 – Calculation of tax payable

(3) Subject to the provisions of subsection (2) of this section and the provisions of sections 15 and 17, the amount of tax payable in respect of a tax period shall be calculated by deducting from the sum of the amounts of output tax of the vendor which are attributable to that period, as determined under subsection (4), and the amounts (if any) received by the vendor during that period by way of refunds of tax charged under section 7(1)(b) and (c) and 7(3)(a), the following amounts, namely—

.....

- (i) an amount equal to the tax fraction of any payment made by the vendor during the tax period in respect of the redemption with him, or his agent, of the monetary value of any token, voucher or stamp contemplated in section 10(20), to a supplier of goods or services who has granted a discount on the surrender to him of such token, voucher or stamp by a recipient of a supply of goods or services if those goods or services are not charged with tax at the rate of zero per cent under section 11;

Section 17 – Permissible deductions in respect of input tax

(1) Where goods or services are acquired or imported by a vendor partly for consumption, use or supply (hereinafter referred to as the intended use) in the course of making taxable supplies and partly for another intended use, the extent to which any tax which has become payable in respect of the supply to the vendor or the importation by the vendor, as the case may be, of such goods or services or in respect of such goods under section 7(3) or any amount determined in accordance with paragraph (b) or (c) of the definition of “input tax” in section 1, is input tax, shall be an amount which bears to the full amount of such tax or amount, as the case may be, the same ratio (as determined by the Commissioner in accordance with a ruling as contemplated in Chapter 7 of the Tax Administration Act or section 41B) as the intended use of such goods or services in the course of making taxable supplies bears to the total intended use of such goods or services: Provided that—

- (i) where the intended use of goods or services in the course of making taxable supplies is equal to not less than 95 per cent of the total intended use of such goods or services, the goods or services concerned may for the purposes of this Act be regarded as having been acquired wholly for the purpose of making taxable supplies;
- (ii) where goods or services are deemed by section 9(3)(b) to be successively supplied, the extent to which the tax relating to any payment referred to in that section is input tax may be estimated where the calculation cannot be made accurately until the completion of the supply of the goods or services, and in such case such estimate shall be adjusted on completion of the supply, any amount of input tax which has been overestimated being accounted for as output tax in the tax period during which the completion occurs and any amount of input tax which has been underestimated being accounted for as input tax in that period; and
- (iii) where a method for determining the ratio referred to in this subsection has been approved by the Commissioner, that method may only be changed with effect from a future tax period, or from such other date as the Commissioner may consider equitable and such other date must fall—
 - (aa) in the case of a vendor who is a taxpayer as defined in section 1 of the Income Tax Act, within the year of assessment as defined in that Act, or
 - (bb) in the case of a vendor who is not a taxpayer as defined in section 1 of the Income Tax Act, within the period of twelve months ending on the last day of February, or if such vendor draws up annual financial statements in respect of a year ending other than on the last day of February, within that year,during which the application for the aforementioned method was made by the vendor.