

## DRAFT BINDING GENERAL RULING (VAT)

DATE:

**ACT : VALUE-ADDED TAX ACT 89 OF 1991**  
**SECTION : SECTION 21(1), (3), (5), 16(2) AND (3)**  
**SUBJECT : VALUE-ADDED TAX TREATMENT OF ROUNDING DIFFERENCE IN CASH TRANSACTIONS**

### *Preamble*

For the purposes of this ruling –

- **“BGR”** means a binding general ruling issued under section 89 of the Tax Administration Act 28 of 2011;
- **“cash transaction”** means a transaction tendered in coins or paper currency that fall in paragraph (a) of the definition of “money” in section 1(1) of the VAT Act;
- **“rounding difference”** means the practice of rounding the total amount due on the sale of goods or services, to the nearest circulated coin, when returning change for cash transactions;
- **“section”** means a section of the VAT Act;
- **“TA Act”** means the Tax Administration Act 28 of 2011;
- **“VAT”** means value-added tax;
- **“VAT Act”** means the Value-Added Tax Act 89 of 1991; and
- any other word or expression bears the meaning ascribed to it in the VAT Act.

### **1. Purpose**

This BGR sets out the circumstances and conditions under which a supplier need not issue a credit note and the input tax consequences for the recipient vendor when a rounding difference occurs as a result of a cash transaction.

### **2. Background**

Some suppliers, in addition to receiving payment for goods or services by way of debit and credit cards, still receive payment by way of cash. The discontinuance by the South African Reserve Bank of the minting and circulation of certain coins resulted in those suppliers adopting the practice of rounding the total amount due on the sale of goods or services to the nearest circulated coin, when returning change for cash transactions.

As a consequence of the above, the supplier has in effect charged a lesser consideration for goods or services than the advertised amount for cash transactions. The tax invoice issued in relation to a supply, and the amount shown as tax charged on the tax invoice differs from the actual tax charged for the supply. This can be illustrated by the following example:

A customer purchases item A for R39,99 and item B for R9,99. The total consideration due for the items is R49,98.

The customer makes a cash payment of R50.

The supplier is unable to provide the customer with change of two cents since this denomination of coin is no longer minted. As a result, the supplier will round the price payable down to the nearest 10 cents and the new total amount due and paid by the customer is R49,90.

### 3. Discussion

On the basis that the consideration for the supply has been altered as contemplated in section 21(1)(c), the tax charged as shown on the tax invoice exceeds the tax that should have been charged. In practice, suppliers generally account for output tax on the consideration due, before the rounding difference (in the above example, on the amount of R49,98 instead of R49,90). It follows that the supplier is entitled to an adjustment contemplated in section 21(2) for the difference of eight cents and the recipient vendor must reduce the amount of its input tax as required under section 21(6).

In the event of a tax invoice consisting of multiple supplies (that is, standard-rated, zero-rated and non-taxable supplies), a recipient vendor must do a reasonable split in order to determine the correct input tax to be deducted. No adjustment of the input tax must be made by a recipient vendor that acquires only zero-rated and non-taxable goods and services.

Under section 21(3)(a), the supplier is required to issue a credit note as the tax shown on the tax invoice exceeds the actual tax charged. As a result, the supplier is, under section 16(3)(a)(v) read with section 21(2)(b), entitled to deduct the excess tax as input tax, or alternatively, to reduce the amount of output tax attributable to the tax period in which the adjustment is to be made, by the amount of the excess tax.

The Commissioner may, however, direct that a credit note is not required to be issued under section 21(5)(b), if the Commissioner is satisfied that –

- there are, or will be, sufficient records available to establish the particulars of a supply; and
- it is impractical to issue a full credit note.

### 4. Ruling

This ruling constitutes a BGR issued under section 89 of the Tax Administration Act 28 of 2011 insofar as it relates to the items listed in **4.1** and **4.2**.

#### **4.1 Supplier**

The Commissioner directs that, under section 21(5)(b), the supplier is not required to issue a credit note as contemplated in section 21(3) in respect of the rounding difference mentioned in paragraph 2, subject to the following conditions:

- The tax invoice must clearly indicate that due to the rounding difference, input tax can only be deducted on the adjusted amount in the case of a cash transaction.
- The supplier may only make an adjustment [that is, by reducing output tax or making a deduction under section 16(3)] as contemplated in section 21(2), to the extent that it relates to standard rated supplies made.
- The supplier must retain the relevant records to substantiate the adjustment referred to above for the period contemplated in section 55 read with Part A of Chapter 4 of the TA Act.

#### **4.2 Recipient vendor**

The recipient vendor may use the tax invoice issued by the supplier as described above, for the purpose of deducting input tax, under section 16(3)(a)(v) read with section 16(2)(b)(ii) and the definition of “input tax” in section 1(1).

Input tax can only be deducted on the adjusted amount for cash transactions.

The recipient vendor must do a reasonable split for the purpose of deducting input tax on acquisition of goods and services charged with different tax rates.

#### **5. Period for which this ruling is valid**

This BGR applies from date of issue until it is withdrawn, amended or the relevant legislation is amended.

**Senior Manager: Leveraged Legal Products  
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