

BINDING GENERAL RULING (VAT): NO. 16

DATE: 25 March 2013

ACT : VALUE-ADDED TAX ACT, NO. 89 OF 1991 (the VAT Act)
SECTION : SECTION 17(1) – APPORTIONMENT
SUBJECT : STANDARD APPORTIONMENT METHOD

Preamble

For the purposes of this ruling –

- “**BGR**” means a binding general ruling issued under section 89 of the TA Act;
- “**section**” means a section of the VAT Act unless otherwise stated
- “**TA Act**” means the Tax Administration Act No. 28 of 2011; and
- “**the Guide**” means the *Value-Added Tax Guide for Vendors (VAT 404)*.

1. Purpose

This BGR reproduces the statement in paragraph 8.4.3 of the *Value-Added Tax Guide for Vendors (VAT 404)* under the heading “Formula: Turnover-based method of apportionment”, which comprises a BGR under section 89 of the TA Act.

2. Background

The Guide, which is updated annually, sets out the apportionment method which must be used to calculate the amount of VAT to be deducted as input tax in respect of the acquisition of goods or services for a mixed purpose¹. This BGR updates references to section 76P of the Income Tax Act, No. 58 of 1962 with references to the TA Act and incorporates subsequent amendments to sections of the VAT Act.

3. Ruling

The formula set out below in respect of the turnover-based method of apportionment constitutes a BGR under section 89 of the TA Act. This BGR is effective from 1 April 2013 and will remain in force until withdrawn or replaced.

$$\text{Formula: } Y = a \times \frac{100}{(a + b + c)}$$

¹ For purposes of this document the acquisition of goods or services partly for the purpose of consumption, use or supply in the course of making taxable supplies and partly for another intended use will be referred to as a “mixed purpose”.

Where:

- y = the apportionment ratio/percentage;
- a = the value of all taxable supplies (including deemed taxable supplies) made during the period;
- b = the value of all exempt supplies made during the period; and
- c = the sum of any other amounts 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).

Notes:

1. The term "value" excludes any VAT component.
2. "c" in the formula will typically include items such as dividends and statutory fines (if any).
3. Exclude from the calculation the value of any capital goods or services supplied, unless supplied under a rental agreement/operating lease (that is, not a financial lease or instalment sale agreement)².
4. Exclude from the calculation the value of any goods or services supplied where input tax on those goods or services was specifically denied.
5. The apportionment percentage should be rounded off to two decimal places.
6. Where the formula yields an apportionment ratio/percentage of 95% or more, the full amount of VAT incurred on mixed expenses may be deducted (referred to as the *de minimis* rule).

Conditions:

The aforementioned method is subject to the following conditions:

1. The vendor may only use this method if it is fair and reasonable. Where the method is not fair and reasonable or inappropriate, the vendor must apply to SARS to use an alternative method.
2. Vendors using their previous year's turnover to determine the current year's apportionment ratio are required to make an adjustment (i.e. the difference in the ratio when applying the current and previous years' turnover) within three months after the end of the financial year.

4. Period for which this ruling is valid

This BGR applies with effect from 1 April 2013 and will apply for an indefinite period.

**Group Executive: Interpretation and Rulings
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² Note that this exclusion only applies where the vendor concerned does not usually supply capital items on a regular basis as a normal part of the business (whether those supplies are made under an instalment credit agreement or under an ordinary sale).