

VAT RULING: VR 004

DATE: 27 February 2024

ACT : VALUE-ADDED TAX ACT 89 OF 1991 (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(s) to which it has been issued and is binding only upon SARS and applies only to the Applicant. This ruling is published for general information. It does not constitute a practice generally prevailing.

1. Summary

This ruling approves the method of apportionment being the varied turnover-based method which is applied to a vendor in the financial industry.

2. Relevant tax laws

In this 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 ruling bears the meaning ascribed to it in the VAT Act.

This 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 incorporated in South Africa (SA) and an authorised credit provider.

4. Description of the transactions

The Applicant’s principal activity is the provision of financial services and mainly offers production loans and trades in the financial industry.

The following income streams are received:

- Interest
- Administration fees
- Initiation fees

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 varied turnover-based method which includes all income streams with the following variations:

Including –

- net interest (interest earned less interest paid);

Excluding –

- bank interest received; and
- accounting entries.

with effect from the commencement of the 2023 financial year.

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 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 expenses¹, apply the varied turnover-based method of apportionment as set out below:

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

where –

y = Apportionment ratio/percentage

a = The value of all taxable supplies made during the period

b = The value of all exempt supplies made during the period –
including –

- net interest income calculated based on the actual interest received less actual interest paid;

excluding –

- interest earned in operating bank accounts used for day-to-day operations;

c = The sum of any other amounts of income 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) –

excluding –

- accounting entries.

¹ Refers to expenses incurred partly for making taxable supplies and partly for other non-taxable purposes (for example, exempt supplies or private use).

Note: All income streams should be taken into account when determining the apportionment ratio based on the formula above, except as otherwise provided in the formula. All the other notes in respect of the formula for the standard turnover-based method contained in BGR 16² shall apply (where applicable).

7. Period for which this ruling is valid

This VAT ruling applies only in respect of the transaction(s) set out above and is –

- (a) valid from date of issue;
- (b) applicable to the financial year commencing on 1 August 2022; and
- (c) valid until 31 July 2025.

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² Binding General Ruling 16 (Issue 2) dated 30 March 2015.