

**VAT RULING: VR 008**

DATE: 15 March 2024

**ACT : VALUE-ADDED TAX ACT 89 OF 1991 (the VAT Act)**  
**SECTION : SECTIONS 17(1) AND 41B**  
**SUBJECT : APPORTIONMENT**

***Preamble***

This VAT ruling is published with the consent of the Applicant 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 input-based method which is applied to a vendor in the short-term insurance 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 a short-term insurance company that conducts short-term insurance operations and related investment activities.

**4. Description of the transactions**

The Applicant provides insurance cover directly to both individuals and business owners without the use of brokers.

The following income streams are received:

- Premium income
- Interest income (exempt)
- Dividend income

- Salvage income generated when damaged goods are sold to scrap dealers
- Receipts in terms of local reinsurance and foreign reinsurance
- Fair value adjustments on financial instruments whenever applicable

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 input-based method as follows –

excluding –

- expenses incurred relating to local reinsurance recoveries; and
- expenses incurred relating to foreign reinsurance recoveries,

with effect from the commencement of the 2024 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 expenses,<sup>1</sup> apply the varied input-based method of apportionment as set out below:

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

where –

y = Apportionment ratio/percentage

a = VAT incurred on goods or services acquired wholly for purposes of making taxable supplies –

excluding –

- expenses incurred relating to local reinsurance.

b = VAT incurred on goods or services acquired wholly for purposes of making exempt and/or out-of-scope supplies –

excluding –

- expenses incurred relating to foreign reinsurance recoveries.

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

**Note:**

The abovementioned varied input-based method is subject to the following:

- Input tax on any goods or services acquired in respect of which a deduction is specifically denied under section 17(2) must be excluded from the calculation.
- VAT incurred on capital goods or services acquired must be excluded from the calculation, unless acquired under a rental agreement or operating lease.
- The apportionment percentage should be rounded off to two decimal places.
- Where the formula yields an apportionment ratio/percentage of 95% or more, the full amount of VAT incurred on mixed-use expenses may be deducted.
- Should the previous financial year's information be used to determine the current year's apportionment ratio, the Applicant is required to make an adjustment (that is, the difference in the ratio when applying the current and previous years' financial information) within six months after the end of the financial year.

**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 July 2023; and
- (c) valid until 30 June 2026.

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