

Schools Exiting the VAT System

VAT Reference Guide



Value-Added Tax

Preface

This reference guide provides information and guidelines regarding the value-added tax (VAT) implications for schools that cease to be vendors, effective from 1 January 2026, because of the amendments to the Value-Added Tax Act 89 of 1991 (VAT Act).

Certain terms are explained within the context of common law and the relevant legislation. This is to assist schools in identifying whether specific items form part of their enterprise assets, which would be subject to VAT upon the school ceasing to be a vendor. For more details on VAT in general, see the *VAT 404 – Guide for Vendors* (VAT 404).

All references to sections are to sections of the VAT Act, unless the context indicates otherwise. The terms “Republic” and “South Africa” are used interchangeably to refer to the sovereign territory of the Republic of South Africa, as set out in the definition of “Republic” in section 1(1).

The information in this guide is based on the VAT Act and the Tax Administration Act 28 of 2011 (TA Act) as at the time of publishing, including the Taxation Laws Amendment Act 5 of 2026 and the Tax Administration Laws Amendment Act 4 of 2026 promulgated on 1 April 2026.

This guide is not an “official publication” as defined in section 1 of the TA Act and accordingly does not create a practice generally prevailing under section 5 of that Act. It does not consider the technical and legal detail that is often associated with taxation and should, therefore, not be used as a legal reference.

It is also not a binding general ruling (BGR) under section 89 of Chapter 7 of the TA Act, nor is it a ruling under section 41B of the VAT Act, unless otherwise indicated. Taxpayers requiring an advance tax ruling¹ or a VAT ruling² should visit the SARS website at www.sars.gov.za³ for details of the application procedure.

All guides, interpretation notes, rulings, forms, returns and tables referred to in this guide are available on the **SARS website**. Unless indicated otherwise the latest versions of these publications should be consulted.

For more information, assistance and guidance you may –

- visit the **SARS website**;
- contact the SARS National Service Centre (between 8am and 4.30pm South African time except on Wednesdays when the service centre can be called between 9am and 4.30pm) –
 - if calling locally, on 0800 00 7277; or
 - if calling from abroad, on +27 11 602 2093;
- have a virtual consultation with a SARS consultant by making an appointment via the **SARS website**;
- contact your own tax advisors;

¹ For further commentary, see the *Comprehensive Guide to Advance Tax Rulings*.

² For further commentary, see the *VAT Reference Guide – VAT Rulings Process*.

³ Navigate to Legal Counsel ⇒ Legal Counsel Publications ⇒ Find a Guide and select the category Tax Administration (for the guide relating to advanced tax rulings) **or** Value-Added Tax (VAT) (for the guide relating to VAT rulings).

- submit legal interpretative queries on the TA Act by e-mail to **TAAInfo@sars.gov.za**;
or
- submit a ruling application to SARS headed “Application for a VAT Class Ruling” or “Application for a “VAT Ruling” together with the VAT301 form by e-mail to **VATRulings@sars.gov.za**.

Comments regarding this guide may be e-mailed to **policycomments@sars.gov.za**.

Leveraged Legal Products
SOUTH AFRICAN REVENUE SERVICE
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DISCLAIMER

Operational information contained in this guide is up to date as at date of publication. However, always refer to the **SARS website** and any external guides specifically issued on such operational matters, which may be updated from time-to-time.

Hyperlinks, and cross-references display as bold text to assist our visually impaired readers. For example, **SARS website**, and see **5.2**.

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Chapter 1

Introduction

Various amendments were made to the VAT Act in the Taxation Laws Amendment Act 5 of 2026.⁴ These amendments provide clarity and certainty regarding the scope of section 12(h) as it applies to schools, and also relieve schools of the administrative burden associated with being a registered vendor. Therefore, with effect from 1 January 2026, any supply of goods or services by a school, is exempt from VAT under section 12(h)(iv). The only exclusion to this exemption applies to supplies made by a school that is a “welfare organisation” as defined in section 1(1), to the extent of its welfare activities. As a result, most schools will no longer carry on an enterprise and will cease to be a vendor.

Although a school that is no longer conducting an enterprise is required to deregister as a vendor and account for output tax on assets held for its enterprise activities prior to such school ceasing to be a vendor, relief is afforded for the payment of such output tax to the South African Revenue Service (SARS). A school is also allowed a deduction of VAT on those assets, to the extent that input tax has not previously been deducted thereon.

1.1 Focus of this guide

This guide provides clarity on the application and interaction of the various sections relating to schools that cease to be vendors from 1 January 2026, following the recent legislative amendments. The main focus is on explaining the application of section 8(2) in the context of a school and providing guidance on how to determine the school’s liability under this section. This guide does not deal with the detailed operational aspects such as the process to deregister, declaration of the liability under section 8(2), and making payment arrangements. Operational aspects and questions not covered in this guide will be included in the *Frequently Asked Questions: Schools Exiting the VAT System*, published on the **SARS website**, as and when necessary.

1.2 Scope, approach and limitations of this guide

As indicated, the main purpose of the guide is to provide guidance to schools on calculating the Exit VAT. This guide does not deal with the classification of supplies made by schools as taxable, exempt, out-of-scope or non-supplies. Furthermore, this Guide does not deal with the VAT consequences for third parties such as governing bodies or suppliers of goods or services to schools.

Although certain concepts such as “adjusted cost” and “open market value (OMV)” are defined in the VAT Act, SARS can only provide limited guidance on how to determine these, and what resources to use. The valuation of assets or rights is beyond the scope of the VAT Act, and SARS cannot provide examples of calculations in this regard.

Chapter 2 provides an overview of the main principles, concepts and implications of the legislative amendments, whilst Chapter 3 provides more detail including the relevant legal concepts and background.

⁴ Published in *Government Gazette* 54448 of 1 April 2026.

The approach of this guide in dealing with the topics mentioned above is set out below:

Chapter 1 – Introduces the topic, and outlines the focus, scope, approach, and limitations of this guide.

Chapter 2 – Provides a plain-language overview of the main principles, concepts, and implications of the legislative amendments. This includes what it means for a school to exit the VAT system, the definition of an “enterprise asset”, and the broad approach to determining liability under section 8(2).

Chapter 3 – Explains when a school ceases to be a vendor, which goods and rights may be subject to section 8(2), the main exclusions from that section, the rules for time and value of supply, and the deduction available under section 16(3)(h).

Chapter 4 – Explains the deductions that may still be claimed before deregistration. This covers apportionment, deductions made in a later tax period, prescribed documentation, and the consequences of incorrectly deducted input tax.

Chapter 5 – Deals with miscellaneous issues such as transitional rules, welfare organisations, payment arrangements, and VAT charged or deductions made in respect of supplies on or after 1 January 2026.

Chapter 2

Overview

The legislative amendments mean that, from 1 January 2026, all supplies made by schools are exempt from VAT. Consequently, most schools will no longer carry on an enterprise for VAT purposes and must exit the VAT system. Even though a school ceases carrying on all enterprises, it must still account for VAT on certain enterprise assets held immediately before ceasing these activities. This is often referred to as the school's "exit VAT" under section 8(2).

In simple terms, section 8(2) is intended to claw back VAT that the school previously deducted on assets or rights used in making taxable supplies. The key question, therefore, is not necessarily whether the school owns something in an accounting or legal sense, but whether the item is an asset (goods or certain rights) that formed part of the school's enterprise and whether VAT was previously deducted on it, either in full or in part.

2.1 What is an enterprise asset?

An enterprise asset is generally a good or right that formed part of the school's taxable activities before deregistration. If the school deducted input tax on that item, even partly, it will generally be considered an enterprise asset that must be considered under section 8(2). If the item was used solely to make exempt educational supplies, it is generally not an enterprise asset for this purpose.

Examples that may be enterprise assets include trading stock such as school uniforms or tuck shop stock, movable items like equipment or furniture used in taxable activities, improvements to property on which input tax was deducted, and certain rights of use or other transferable rights. In contrast, items on which input tax was never allowed, such as most entertainment items or motor cars, are generally excluded. Donated goods or rights acquired for no consideration will also generally not create a section 8(2) liability because their cost is nil.

2.2 The main implication of the amendments

The main implication for schools is that they move from being VAT vendors to making exempt supplies. This change reduces the future administrative burden, as no further returns need to be submitted,⁵ and eliminating the need to determine when output tax should be charged on supplies to learners, parents, and third parties. Furthermore, schools are not entitled to claim any input tax or other deductions from 1 January 2026, except in the limited cases dealt with in this guide. However, before leaving the VAT system, the school must identify its enterprise assets on hand and calculate the VAT consequences of the deemed supply of those assets [as required under section 8(2)].

2.3 How is the section 8(2) determination carried out?

A practical way to approach this determination is as follows:

1. Identify the goods and rights the school still had on hand immediately before ceasing to carry on all enterprises.
2. Determine whether each item formed part of the school's enterprise, that is, whether it related to taxable supplies and not only exempt educational activities.

⁵ Subject to 5.3.

3. Determine whether input tax was previously deducted on that item, in full or in part.
4. Exclude items on which input tax was denied from the start, for example most entertainment assets and motor cars, as well as donated items with no cost.
5. For each remaining item, being an enterprise asset, determine the lower of its cost or its open market value (OMV) as at 31 December 2025.
6. Apply the tax fraction to that amount to calculate the output tax under section 8(2).
7. Then consider whether the school may also claim a deduction under section 16(3)(h) for the portion of VAT previously not deducted, for example, the asset was only partly used for taxable supplies.

2.4 What does “lower of cost or open market value” mean?

The section 8(2) amount is not automatically based on the school’s original purchase price or its highest possible value. The rule dictates that the item must be valued at the lower of its cost or its OMV. This means that increases in value are generally not taxed, while a reduction in value may decrease the VAT payable. In practice, schools should utilise available records such as financial statements, fixed asset registers, stock sheets and, if relevant, fair value or book value information to support the calculation.

2.5 Key considerations regarding rights and fixed property

For schools, the most significant practical issue often revolves around whether a right in property or an improvement to property qualifies as an enterprise asset. Owned land and buildings may fall within section 8(2) if input tax was deducted on them. Similarly, improvements made to land not owned by the school may also fall within section 8(2) if input tax was deducted on those improvements. Certain rights of use may also be relevant, particularly when the right formed part of the school’s taxable activities and incurred a cost. Conversely, a school that has no cost in obtaining a right, or the right is not truly an asset of the school for VAT purposes, there may be no amount to bring to tax.

2.6 Key message for schools

The starting point is to ask: “Did the school deduct VAT (wholly, or partly) on this item because it was used for taxable supplies?” If the answer is yes, the item will generally need to be tested under section 8(2). If the answer is no, the item will generally fall outside the section 8(2) calculation. The final liability is therefore determined asset by asset, using the lower of cost or OMV, and then reduced when the school is entitled to a corresponding deduction for VAT not previously claimed.

This overview aims to help schools understand the broad principles. The subsequent paragraphs explain the legal rules and provide examples in more detail.

Chapter 3

Ceasing to be a vendor

Under section 24(3), a vendor must notify the Commissioner for SARS (the Commissioner) if the vendor has ceased carrying on all enterprises. In this instance, the Commissioner will cancel the VAT registration with effect from the last day of the tax period during which all such enterprises ceased, or from such other date as he may determine. Under section 24(5), the Commissioner may also cancel the registration of a vendor that ceases to carry on an enterprise with effect from the last day of the tax period during which all enterprises ceased, or from such other date as may be determined by the Commissioner.

The amendments relating to schools are effective from 1 January 2026. From that date forward, most schools will no longer conduct any enterprise (except to the extent of welfare activities conducted by a school that qualifies as a “welfare organisation”; see 5.2). Schools must therefore apply for deregistration. In this regard, schools will be issued with a notice requesting cancellation of registration, which will provide further details on the process and the documents to be submitted.

3.1 Supply of goods and rights under section 8(2)

Under section 8(2), any goods, or rights capable of assignment, surrender, or cession, that form part of the assets of the vendor’s “enterprise”⁶ are deemed to have been supplied in the course of the vendor’s enterprise immediately before the vendor ceased to be a vendor. This date is 31 December 2025, as the vendor ceases to carry on all enterprises on 1 January 2026.⁷ The main purpose of section 8(2) is to claw back input tax that was deducted on assets used in the school’s enterprise and that are on hand at the time that the school ceases to be a vendor.

The word “asset” is not defined in the VAT Act. The online *Cambridge Dictionary* defines the word “asset” as “something having value, such as a possession or property, that is owned by a person, business, or organization”.⁸ However, as discussed below in the context of “goods” and “fixed property” as defined in section 1(1), these terms go beyond ownership.

The term “enterprise” is defined in section 1(1). In the context of section 8(2) it refers to the school’s activities resulting in taxable supplies of goods or services (that is. it specifically excludes the school’s supplies of exempt educational services).⁹

Based on the above, generally, if a school deducted “input tax”¹⁰ wholly, or in part, in respect of the aforementioned goods or rights because these goods or rights were consumed, used or supplied in the course of making taxable supplies, such school will generally be required to account for output tax thereon as being enterprise assets, subject to the relevant exclusions as discussed in 3.3. Any assets consumed, used or supplied by the school, wholly in the course of making exempt supplies are not subject to section 8(2).

⁶ See section 1(1).

⁷ Due to the special provisions introduced to make payment of the liability under section 8(2) from 1 January 2027, schools will be deregistered only once the liability has been paid. Deregistration in any event can take place only once all outstanding returns and payments have been received.

⁸ <https://dictionary.cambridge.org/dictionary/english/asset> [Accessed 17 June 2026].

⁹ See proviso (v) to the definition of “enterprise” in section 1(1).

¹⁰ The term “input tax” is defined in section 1(1) and includes notional input tax on “second-hand goods”. See VAT 404 for more details in this regard.

The liability under section 8(2) (sometimes referred to in this guide as “exit VAT”) is subject to special time and value of supply rules in sections 9(5) and 10(5). See **3.4**.

3.1.1 Goods

The term “goods”¹¹ is widely defined in section 1(1) to include corporeal movable things, fixed property, and any real right in any such thing or fixed property but excluding any right under a mortgage bond or pledge of any fixed property. The following examples of goods may constitute enterprise assets in the hands of a school:

- Corporeal movable things: tangible things that are generally capable of sensory perception for example computer equipment, school desks, school uniforms and sporting gear, tuck shop stock, books, stationery, office furniture etc.
- Fixed property: the term is defined in section 1(1) and refers amongst others, to land, including any improvements affixed to the fixed property, for example buildings, hostels, tennis courts, sports fields etc. and any real right in fixed property (see below).¹²
- Any real right in corporeal movable things or fixed property.¹³

Examples of a real right in movable things may include the right of ownership, and a lien. The latter applies when one lawfully possesses another’s movable property and has the right to retain it until paid, and a right of retention.

Examples of real rights in fixed property may include the right of ownership, servitudes (such as, for example, a right of way), a registered lease of 10 years or more and mineral rights.¹⁴

In the case of fixed property, a real right is established by registration in the Deeds Office. For a real right in corporeal movable things, delivery or possession creates such right.

A personal right is only enforceable against a specific person within the subject/object relationship, for example the other party to a contract. The classification of a right as a real right is important for VAT purposes, as a real right is regarded as “goods”, whereas a non-registrable personal right constitutes “services” as defined in section 1(1). However, both real rights and personal rights capable of assignment, surrender, or cession are subject to section 8(2), if such rights are enterprise assets. See **3.2**.

The salient differences between a real right and a personal right can be summarised as follows:

	Real right	Personal right
Scope	Enforceable against everyone (<i>in rem</i>).	Enforceable against a specific person (<i>in personam</i>).

¹¹ See section 1(1).

¹² See the VAT 409 – *Guide for Fixed Property and Construction* (VAT 409) for further information on this topic.

¹³ See the VAT 409 for further information on this topic.

¹⁴ These examples are not a complete list of possible real rights.

	Real right	Personal right
Registration	Must be registered in the Deeds Office in the case of fixed property.	Generally, not subject to registration, subject to some exceptions.
Transferability	Through deeds and registration in the case of fixed property. Other intangibles: Cession/assignment.	Through assignment or cession.

3.1.2 Fixed property

As indicated above, the definition of “goods”, read with the definition of “fixed property”, includes corporeal fixed property (such as land and improvements to such property) and a real right in the fixed property.

For accounting purposes, fixed property (tangible) that is owned is disclosed under Property, Plant and Equipment. Limited rights in fixed property (intangibles or right-of-use assets) that constitute a legal right to claim or use the asset without ownership, may also be disclosed under the applicable property, plant and equipment class, or separately as an asset, with a corresponding lease liability. Under Financial Reporting Standards (IFRS), leasehold improvements are also recognised under Property, Plant and Equipment, generally capitalised as cost.

If fixed property (including leasehold improvements) constitutes enterprise assets that are held by the school prior to ceasing to become a vendor, the school will be required to account for output tax on these assets under section 8(2).

Framework for infrastructure and input tax

Responsibility for public school infrastructure and related education functions primarily rests with government (within the constitutional and schools-law framework), with delivery and funding administered through national and provincial education structures.¹⁵

Based on the above, the view is held that public schools will only have direct ownership or rights in fixed property in limited circumstances. Furthermore, whilst independent schools fund infrastructure from fees, donations, and investments, having regard to the fact that the main purpose of a school is to supply educational services (which are exempt from VAT), it is submitted that schools (public and independent schools) should generally not have fixed property or improvements to fixed property that constitute enterprise assets.

Schools would accordingly not have been entitled to a full input tax on these assets. At most, they would only have been entitled to a portion of the VAT incurred on such assets, to the extent that these assets were acquired for the purpose of consumption, use or supply in the course of making taxable supplies.

¹⁵ www.gov.za/news/speeches/minister-siviwe-gwarube-ministerial-briefing-session-school-infrastructure-and [Accessed 17 June 2026].

Owned fixed property: Public and independent schools

Fixed property owned by a school constitutes a real right in that property. If the school possesses unencumbered ownership, the actual land, buildings and improvements such fixed property are considered when determining the cost and OMV for the purposes of section 8(2) read with section 10(5), provided such fixed property constitutes an enterprise asset. In the case of property that is encumbered, for example, by servitudes¹⁶ and usufruct, the OMV of the real right in the fixed property may be less than the market value of unencumbered property.

Public schools on State property

Under section 13(2) of the Schools Act –

“a public school which occupies immovable property owned by the State has the right, for the duration of the school’s existence, to occupy and use the immovable property for the benefit of the school for educational purposes at or in connection with the school”.

Section 13(5) of the same Act provides that –

“The right contemplated in subsection (2) is enforceable against any successor in title to the owner of the immovable property in question”.

Furthermore, section 13(6) of the same Act provides further that no immovable property owned by the State and occupied by a public school may be alienated unless an agreement as contemplated in section 14 of that Act, has been concluded between the Member of the Executive Council (MEC)¹⁷ and the prospective owner of the immovable property.

The right to occupy immovable property owned by the State, as envisaged in section 13(2) of the Schools Act, is a real right despite not being registered in the Deeds Office. Section 13(8) of the Schools Act provides that the Deeds Registries Act 47 of 1937 (the Deeds Registries Act) does not apply to the right contemplated in section 13(2).

Should the right under section 13(2) constitute an enterprise asset, it will be subject to section 8(2). However, applying section 8(2) cannot be done without considering the consequences that apply automatically by operation of law (*ex lege*) if a public school occupies state land under section 13(2) of the Schools Act.

- Security of tenure (non-evictability)

Unlike a lease, in which case a landlord can terminate the agreement upon notice or breach, the “natural” state of a school’s occupation is that it lasts as long as the school exists. The State cannot “evict” the school unless the MEC follows the specific statutory process to close the school (see section 33 of the Schools Act).

- Prohibition of rent

A natural consequence of section 13(2) of the Schools Act is that the occupation is gratuitous (free). The law does not imply a duty to pay rent; in fact, it is the State’s duty to provide basic education (see section 29 of the Constitution of the Republic of South Africa, 1996) and must provide the necessary infrastructure.

¹⁶ A right held over another person’s property, for specific purposes.

¹⁷ The Member of the Executive Council of a province who is responsible for education in that province.

- Maintenance responsibility (shared public duty)

In a lease, maintenance is usually the landlord's duty (*naturalia*). Under the Schools Act, however, maintenance is a shared statutory function between the Head of Department (HOD) and the School Governing Body (SGB) under sections 20 and 21 of the Schools Act. This is a public law allocation of duties, not a contractual obligation.

- Limited “right-of-use”

A school's right to use land is inherently restricted to educational purposes. A school that uses the land for non-educational purposes, is in breach of statutory duty, managed through administrative law.

Public schools on private property

Under section 14(1) of the Schools Act, “a public school may be provided on private property only in terms of an agreement between the MEC and the owner of the private property”.

This provision enables the State to establish public schools on privately owned land while simultaneously safeguarding both the school's operational needs and the property owner's rights. It thereby ensures access to education in areas where state-owned land may not be available. Section 14(2) of the Schools Act dictates the minimum requirements that must be addressed in such an agreement.

The right to occupy the immovable private property, as envisaged in section 14(1) of the Schools Act is a real right, despite not requiring registration in the Deeds Office. In this regard, section 14(3) of the same Act provides that the Deeds Registries Act does not apply to the real right acquired by the State, a public school, or another party in terms of an agreement contemplated in section 14.

“Despite the provision in section 14(3), a Registrar of deeds must endorse on the title deed of the affected property that the property is subject to an agreement contemplated in section 14 of the said Act, if the Registrar of deeds receives—

- (a) an application for such endorsement by the owner of the property, or the Member of the Executive Council or any other holder of a right contemplated in subsection (3), together with the title deed of the property; and
- (b) affidavits by the owner of the property and the Member of the Executive Council stating that an agreement contemplated in the section has been concluded.”¹⁸

Under section 14(4) of the Schools Act, the right referred to in section 14(3) is enforceable against any successor in title to the owner of the immovable property in question.

Once concluded, the agreement creates a real right enabling the school to occupy and use the property for educational purposes. However, this real right in fixed property is held by the MEC, for or on behalf of the school. It follows that the relevant MEC is entitled to administer and enforce the right. The view held by the Commissioner is that this right in fixed property is therefore not considered to be an enterprise asset of the school for the purposes of section 8(2).

¹⁸ See section 14(5) of the Schools Act.

Right-of-use of fixed property: Public and independent schools

Under a leasehold title, a person holds specific legal rights and interests in a property based on a lease agreement. Unlike freehold ownership, in which both the land and buildings are owned, leasehold grants a person the right to occupy and use the property for a fixed period as specified in the lease agreement. The land itself remains the property of the lessor. Such leasehold title constitutes a personal right, enforceable only against the lessor.

“No lease of land which is entered into for a period of not less than ten years or for the natural life of the lessee or any other person mentioned in the lease, or which is renewable from time to time at the will of the lessee indefinitely or for periods which together with the first period of the lease amount in all to not less than ten years, shall be valid against a creditor or successor under onerous title of the lessor for a period longer than ten years after having been entered into, unless—

- (a) it has been registered against the title deeds of the leased land; or
- (b) the aforesaid creditor or successor at the time of the giving of credit or the entry into the transaction by which he obtained the leased land or a portion thereof or obtained a real right in respect thereof, as the case may be, knew of the lease.”¹⁹

A leasehold right that meets the latter requirements is a real right in the property. When considering if a leasehold right exists, regard must be had to the essentials of a contract of lease, as noted in *Kessler v Krogmann*⁵ that “... there must be an ascertained thing, and a fixed rent at which the lessee is to have the use and enjoyment of that thing.”²⁰

Having regard to the common-law principle of *superficies solo cedit*, buildings or attachments which have become permanently attached to land, become the property of the owner of that land on which these buildings or attachments have been built or attached. Therefore, improvements made by the lessee under a lease agreement that are permanently attached to the land or buildings become the property of the lessor. The same principle applies to improvements made by public schools on land owned by the State.

Unless there is an agreement explicitly requiring the lessee to effect leasehold improvements for a consideration, or specifying that the leasehold improvements are required in *lieu of* lease payments, or are considered part-payment for the right-of-use granted by the lessor, a school would not have been entitled to deduct input tax (in full or partly) in respect of the costs incurred in constructing buildings, or making attachments or improvements. This is because these costs would have been incurred in the course of making exempt supplies of education, and there would be no consideration payable for the leasehold improvements. In this regard, however, the VAT Act contains special provisions relating to leasehold improvements in certain instances, including when such improvements are made for no consideration.²¹ See the VAT 409 for more details regarding these special provisions.

It is considered that there are very limited circumstances in which a school would have been entitled to make a deduction in respect of improvements made to land not owned by the school. For example, input tax may have been deducted on the construction costs of a swimming pool used wholly to make supplies to non-learners.

¹⁹ See section 1(2) of the Formalities in respect of Leases of Land Act 18 of 1969.

²⁰ 1908 TS 290.

²¹ This section is designed for private law arrangements in terms of which one party (lessee) improves the property of another (lessor) under a voluntary agreement.

A school occupying land owned by the State or a third party would typically have disclosed improvements made on that land as an asset for accounting purposes. This is despite such improvements acceding to the land, and therefore being owned by the third party.²² To the extent that the school was entitled to, and deducted, input tax on such improvements, the improvements are considered an enterprise asset that must be valued for the purposes of section 8(2). In addition, as indicated above, the right to occupy the land and use the buildings, etc, generally constitutes a real right in fixed property and will therefore also be subject to section 8(2) if such right is an enterprise asset.²³

Summary

The aforementioned scenarios can be summarised as follows:

Scenario	Limited real rights in fixed property (subject to section 8(2)?	Fixed property subject to section 8(2)?
A public school occupies land owned by the State as envisaged in section 13(2) of the Schools Act	Yes, the school has a real right under section 13(2) of the Schools Act.	Yes, if the school deducted input tax on the leasehold improvements, these are considered to be enterprise assets.
A public school occupies land owned by a third party as envisaged in section 14(1) of the Schools Act.	No, the school does not have a real right in the fixed property.	Yes, if the school deducted input tax on the leasehold improvements, these are considered to be enterprise assets.
An independent school occupies land owned by a third party.	Yes, the school will generally have a real right in fixed property (unless the lease is for a period of less than 10 years; see 3.1.2).	Yes, if the school deducted input tax on the leasehold improvements, the leasehold improvements are considered to be enterprise assets.
An independent school or public school is housed on its own land (unencumbered).	No, this is not a limited real right as the school has full unencumbered ownership.	The school has full ownership and a real right in fixed property, but what is valued for purposes of section 8(2) is the actual land, buildings and improvements to the fixed property.

²² See the VAT 409 for more details about leasehold improvements.

²³ Note the exception above discussed regarding public schools.

3.1.3 Key takeaways: Goods

In summary of the above, the following points are key:

- Section 8(2) applies only to fixed property or rights that are enterprise assets.
- Generally, if a school deducted input tax on fixed property or rights, either in full, or in part, these will be considered enterprise assets subject to section 8(2).
- Owned land, buildings, and improvements may fall within section 8(2).
- Examples of movable property included in section 8(2) are tuck shop stock, uniforms, and sporting gear etc.
- Public schools will generally have limited exposure to fixed property.
- Public and independent schools would generally not have claimed full input tax on fixed property.
- The right of a public school to occupy State land may be a real right but requires special consideration.
- A public school's right in private property, under section 14 of the Schools Act, is generally not an enterprise asset of the school.
- Improvements made to land not owned by the school will still be subject to section 8(2) if input tax was deducted.
- The section 16(3)(h) deduction may reduce the net section 8(2) liability.

3.2 Rights capable of assignment, cession or surrender

Generally, this refers to personal rights that can be transferred from one party to another through assignment, cession, or surrender. Examples include the following:

- Copy rights, trademarks and patents
- Right- of-use of movable assets such as printers, computers etc

The rights contemplated above, are subject to section 8(2) if they constitute enterprise assets. The supply of these rights is deemed to be a supply of a "service".²⁴

Example 1 – Right capable of assignment, cession or surrender: Right-of-use of a movable asset

Facts:

On 1 February 2025, ABC School entered into a lease agreement for a printer. The printer is exclusively used in the school's clothing shop. ABC School deducted VAT in full on the monthly payments made under the lease agreement. The lease agreement is for a period of 36 months.

Result:

As the right to use the printer under the lease agreement is a personal right, capable of assignment, cession or surrender, ABC School must include such right as an enterprise asset that is taxable under section 8(2) before deregistration.

²⁴ See section 1(1), definition of "services".

3.2.1 Key takeaways: Rights capable of assignment, cession or surrender

In summary, the following points are key:

- Section 8(2) can apply to transferable personal rights.
- These rights must be capable of assignment, cession, or surrender.
- If the rights are enterprise assets, they must be included on deregistration.
- If input tax was deducted on the right-of-use, it may be taxable under section 8(2).

3.3 Exclusions from the ambit of section 8(2)

Goods on which input tax were denied under section 16(3), read with section 17(2), on acquisition, are not subject to section 8(2). The following are examples of goods or rights, capable of assignment, surrender or cession which will not be subject to section 8(2) even if they form part of the enterprise assets.

3.3.1 Entertainment

Generally, input tax is denied on goods or services acquired for the purpose of “entertainment”²⁵ even if such goods or services are used for making taxable supplies. Examples of entertainment expenses that should not form part of the enterprise assets of the school at the time of ceasing to be a vendor are the following:

- Food, beverages, ingredients held as stock for purposes of –
 - providing meals to staff (including free or subsidised meals); and
 - providing meals in the school hostel
- Complimentary staff refreshments (for example, tea, coffee and other beverages or snacks provided to staff)
- Complimentary refreshments provided during open days
- Capital goods such as a microwave oven, or a fridge in the staff room or school hostel²⁶

Examples of entertainment expenses that may form part of the enterprise assets of the school at the time of ceasing to be a vendor (that is, instances in which input tax would have been allowed on these expenses) are the following in respect of a school tuck shop:

- Food and beverages stock on hand, such as pies, sausage rolls, chips, sweets, cold drinks, etc
- Items such as stock on hand of coffee, tea, sugar, milk cartons, flour etc
- Assets such as toasters, frying pans, microwave ovens, fridges, freezers etc

The above items must be held by a school that supplies entertainment at a cost covering all direct and indirect costs or equal to the OMV, for example, goods sold at the tuck shop or sporting events.

²⁵ See section 1(1).

²⁶ See paragraph 6.1.5 of the *VAT 411 – Guide for Entertainment, Accommodation and Catering* for more details on the VAT treatment of commercial accommodation for circumstances in which the supplies will be exempt under section 12(h)(ii), which means any input tax on these expenses will in any event be denied.

See the *VAT 411 – Guide for Entertainment, Accommodation and Catering* for more details on the VAT treatment of commercial accommodation.

3.3.2 Motor cars

A “motor car”, as defined in section 1(1), generally refers to a passenger vehicle with three or more wheels, normally used on public roads, and constructed or converted mainly or wholly to carry passengers. This includes motor cars, station wagons, minibuses and double cab light delivery vehicles. As a general rule, input tax may not be deducted on the acquisition of a motor car (regardless of how it is acquired), even if it is used to make taxable supplies, unless the vendor is a motor car dealer or carries on a motor car rental enterprise.

While a school bus falls outside the scope of the definition of “motor car” because it could be used for the transport of fare-paying passengers, it will not constitute an enterprise asset. Therefore, no input tax would have been deducted on its acquisition.²⁷ Furthermore, if such transport services are provided for no consideration, the bus will also not be considered an enterprise asset.²⁸ In both instances, no input tax can be deducted.

Based on the aforementioned, any motor car held as an asset by a school would generally not be an enterprise asset for the purposes of section 8(2). See Interpretation Note 82 “Input Tax on Motor Cars” for more information.

3.3.3 Input tax not paid within 12 months

If a school is registered on the invoice basis and has claimed input tax on a purchase, it must “claw back” (account for output tax) under section 22(3) if the purchase price remains unpaid 12 months after the end of the tax period in which the deduction was made. If payment is only due later in terms of a written agreement, the 12-month period runs from the end of the month in which payment should have been made under that agreement.

If the school has already made a section 22(3) claw-back but then pays the outstanding amount to the supplier before ceasing to be a vendor, it may claim the input tax again under section 22(4).²⁹ If input tax is reclaimed, section 8(2) will apply to that extent when the school exits the VAT system. See **Example 2**.

In respect of unpaid purchases, if the VAT has already been clawed back, that amount is not taxed again under section 8(2). Section 8(2) thus applies to unpaid purchases as at 31 December 2025 to the extent that the VAT has not yet been clawed back. See **Example 3**.

Example 2 – Debt burdened asset on cessation: portion already clawed back: 12-month period already triggered before cessation

Facts:

ABC School purchases an asset on credit on 1 May 2024 that is used for the purposes of making taxable supplies. By 1 May 2025, ABC School has not paid any of the consideration of R57 000 (VAT inclusive of R7 434.78). ABC School accounted for output tax of R7 434.78 under section 22(3). ABC School subsequently paid the full amount of consideration to the creditor before ceasing to be a vendor.

²⁷ See section 12(1)(g).

²⁸ See Interpretation Note 70 “Supplies Made for No Consideration”.

²⁹ See sections 22(4) and 16(3).

Result:

Under section 22(4), the vendor may deduct the input tax under section 16(3) read with section 16(2), being the tax fraction of R57 000. As a result, ABC School is liable for output tax under section 8(2) on the lower of cost or OMV of the asset, calculated as follows (assuming the cost of R57 000 is the lower amount). Output tax of R7 434.78 ($R57\ 000 \times 15 / 115$) will be accounted for

As illustrated in this example, the net effect is that the input tax deducted of R7 434.78 is clawed back.

Example 3 – Full consideration not paid on goods or services used up: 12-month period not triggered before cessation**Facts:**

ABC School purchased rugby shirts on credit on 1 May 2025 that is used for the purpose of making taxable supplies. By the time ABC School ceases to be a vendor, no consideration for the R27 000 (VAT inclusive of R3 521.74) purchase has been paid. The school deducted the full VAT incurred in its 05/2025 tax period. All the rugby shirts were sold by the end of June 2025.

Result:

Under proviso (ii)(dd) to section 22(3), ABC School must declare output tax of R3 521.74.

As this example illustrates, the net effect is that the input tax of R3 521.74, previously deducted, is clawed back.

3.3.4 Key takeaways: Exclusions from section 8(2)

In summary, the following points are key:

- Section 8(2) does not apply if input tax was denied from the outset.
- Entertainment items are generally excluded, unless held for taxable supplies such as a tuck shop.
- Motor cars are generally excluded because input tax is usually not deductible.
- A school bus will generally not be an enterprise asset if no input tax was deductible.
- For unpaid purchases, the section 22(3) claw-back must be considered before section 8(2).
- If VAT was already clawed back, it is not taxed again under section 8(2).
- If input tax is later reclaimed, section 8(2) may apply to that extent.

3.4 Time and value of supply

The supply of goods or any right capable of assignment, cession, or surrender, which is deemed to be supplied by the school under section 8(2), occurs at the time contemplated in that section, immediately before the school ceases to be a vendor.³⁰ This liability must be determined as at 31 December 2025.

The deemed supply under section 8(2) is deemed to be made for a consideration in money equal to the lower of the cost to the vendor of acquisition, manufacture, assembly, construction or production of the goods or services or their OMV.³¹ The effect of this is that any increase in the value of the goods or services is not taxed. Possible depreciation in value is taken into account, in which case the OMV will be lower than the cost. The word “cost” is not defined in the VAT Act.³²

Cambridge Dictionary defines “cost” as—³³

“something that is given, needed, or lost in order to get a particular thing”.

Under section 10(5), amongst others, the following is specifically included in the “cost”:

- Any tax incurred on acquisition of the goods or services or of any components, materials or services utilized by the vendor in respect of the manufacture, assembly, construction or production of goods or services;
- In the case of “trading stock” as defined in section 1(1) of the Income Tax Act 58 of 1962, any further costs incurred, including tax in respect thereof as contemplated in section 22(3)(a) of the said Act;
- In respect of acquisitions from a connected persons to which section 10(4) applied to deem the consideration to be the OMV, or would have deemed it so had the recipient not been entitled to full input tax on such acquisition, such OMV on acquisition is included to the extent that it exceeds the consideration in money actually paid on acquisition.

“Open market value” is defined in section 3, which details the process of determining the OMV of a supply in various scenarios. The OMV is usually the price (consideration) that could be obtained between a willing buyer and a willing seller dealing at arm’s length in an open market. Importantly, the OMV includes the tax charged under section 7(1)(a) on the supply.

Schools may apply the following guidelines when determining the lesser of the cost or OMV for the purposes of sections 8(2) and 10(5) for “enterprise assets” on hand before ceasing to be vendors, in respect of which input tax was deducted (see **Annexure A** for more examples):

³⁰ Section 9(5).

³¹ Section 10(5).

³² The term “adjusted cost” is defined for the purposes of section 16(3)(h).

³³ <https://dictionary.cambridge.org/dictionary/english/cost> [Accessed 17 June 2026].

Examples	Real rights in fixed property (i.e. rights relating to the use of land)	Fixed property (e.g. land, buildings, attachments, or improvements)	Corporeal movable things, stock (e.g. computer equipment, stationery, tuck shop stock, uniforms and sporting gear, furniture, food and beverages, ³⁴ uniforms etc)	Personal rights (e.g. a right to use printers or computer equipment)
<p>A public school occupies land owned by the State, as envisaged in section 13(2) of the Schools Act</p>	<p>There is no cost for the real right in fixed property, as the public school obtains the right by operation of law without any requirement to make payment, or supply goods or services in return (see 3.1.2). As the cost is zero, no output tax liability arises, and there is no need to determine the OMV of such right.</p>	<p>The public school must determine the lower of the cost or OMV of the improvements. The Annual Financial Statements, together with the fixed asset register, would generally reflect the cost of the improvements (the cost) as well as the book value.³⁵ In some instances, the fair value (OMV) may be reflected.</p>		

³⁴ Only to the extent the requirements for a deduction in respect of “entertainment” are met. See 2.3.

³⁵ Note that the cost and OMV for purposes of sections 8(2) and 10(5) include tax.

Examples	Real rights in fixed property (i.e. rights relating to the use of land)	Fixed property (e.g. land, buildings, attachments, or improvements)	Corporeal movable things, stock (e.g. computer equipment, stationery, tuck shop stock, uniforms and sporting gear, furniture, food and beverages, ³⁴ uniforms etc)	Personal rights (e.g. a right to use printers or computer equipment)
A public school occupies land owned by a third party, as envisaged in section 14(1) of the Schools Act	The public school cannot enforce the real right in fixed property (only the MEC may enforce the right). Therefore, there is nothing to value in the public school's hands; the real right is not an asset of the public school. See 3.1.2.	The public school must determine the lower of the cost or OMV of the improvements. The Annual Financial Statements, together with the fixed asset register, would generally reflect the cost as well as the book value. ³⁶ In some instances the fair value (OMV) may be reflected.		

³⁶ Note that the cost and OMV for purposes of sections 8(2) and 10(5) include tax.

Examples	Real rights in fixed property (i.e. rights relating to the use of land)	Fixed property (e.g. land, buildings, attachments, or improvements)	Corporeal movable things, stock (e.g. computer equipment, stationery, tuck shop stock, uniforms and sporting gear, furniture, food and beverages, ³⁴ uniforms etc)	Personal rights (e.g. a right to use printers or computer equipment)
An independent school occupies land owned by a third party	The Annual Financial Statements may assist in determining the cost of the right-of-use assets. ³⁷ Generally, the cost will be the initial lease liability on commencement of the lease, with the OMV being the present value of the future payments at the time the person ceases to be a vendor.	The independent school must determine the lower of the cost or OMV of the improvements. The Annual Financial Statements, together with the fixed asset register, would generally reflect the cost of the improvements as well as the book value. ³⁸ In some instances, the fair value (OMV) may be reflected.		

³⁷ See IFRS 16 Leases (IFRS 16).

³⁸ Note that the cost and OMV for purposes of sections 8(2) and 10(5) include tax.

Examples	Real rights in fixed property (i.e. rights relating to the use of land)	Fixed property (e.g. land, buildings, attachments, or improvements)	Corporeal movable things, stock (e.g. computer equipment, stationery, tuck shop stock, uniforms and sporting gear, furniture, food and beverages, ³⁴ uniforms etc)	Personal rights (e.g. a right to use printers or computer equipment)
<p>A public school bought land adjacent to where the school is situated and built tennis courts on the land</p>	<p>The public school has ownership of the acquired land, so the actual cost of the land, buildings, and improvements will be used. The OMV will be the value at which the property can be sold, in the case of unencumbered land. Municipal rate accounts may assist in determining the OMV.</p>	<p>The public school must determine the lower of the cost or OMV of the physical land, buildings, and improvements. The Annual Financial Statements, together with the fixed asset register, would generally reflect the cost of the land and any improvements or additions (the cost) as well as the book value. In some instances, the fair value (OMV) may be reflected.³⁹ Other examples of what can be considered to determine the OMV are municipal rate accounts, the insured value of the fixed property, etc.</p>		

³⁹ Note that the cost and OMV for purposes of sections 8(2) and 10(5) include tax.

Examples	Real rights in fixed property (i.e. rights relating to the use of land)	Fixed property (e.g. land, buildings, attachments, or improvements)	Corporeal movable things, stock (e.g. computer equipment, stationery, tuck shop stock, uniforms and sporting gear, furniture, food and beverages, ³⁴ uniforms etc)	Personal rights (e.g. a right to use printers or computer equipment)
An independent school occupies its own land	The independent school has ownership of the land, so the actual cost of the land, buildings and improvements will be used. The OMV will be the value at which the property can be sold, in the case of unencumbered land. Municipal rate accounts may assist in determining the OMV.	The independent school must determine the lower of the cost or OMV of the physical land, buildings and improvements. The Annual Financial Statements, together with the fixed asset register, would generally reflect the cost of the land and any improvements or additions (the cost) as well as the book value. ⁴⁰ In some instances, the fair value (OMV) may be reflected. Other examples of what can be considered to determine the OMV are municipal rate accounts, the insured value of the fixed property etc.		

⁴⁰ Note that the cost and OMV for purposes of sections 8(2) and 10(5) include tax.

Examples	Real rights in fixed property (i.e. rights relating to the use of land)	Fixed property (e.g. land, buildings, attachments, or improvements)	Corporeal movable things, stock (e.g. computer equipment, stationery, tuck shop stock, uniforms and sporting gear, furniture, food and beverages, ³⁴ uniforms etc)	Personal rights (e.g. a right to use printers or computer equipment)
Goods or rights acquired as donated goods (see 3.5) or for no consideration.	As the cost is zero, there is no output tax to be determined under section 8(2).	As the cost is zero, there is no output tax to be determined under section 8(2).	As the cost is zero, there is no output tax to be determined under section 8(2).	
A school leases a printer that is exclusively used in the uniform shop.				The Annual Financial Statements may assist in determining the cost of the right-of-use assets. Generally, the cost will be the initial lease liability on commencement of the lease, with the OMV being the present value of the future payments at the time the person ceases to be a vendor. ⁴¹

⁴¹ See IFRS 16.

Examples	Real rights in fixed property (i.e. rights relating to the use of land)	Fixed property (e.g. land, buildings, attachments, or improvements)	Corporeal movable things, stock (e.g. computer equipment, stationery, tuck shop stock, uniforms and sporting gear, furniture, food and beverages, ³⁴ uniforms etc)	Personal rights (e.g. a right to use printers or computer equipment)
Movable goods, including stock items on hand acquired at a cost.			<p>The school must determine the cost or OMV of the stock or movable assets on hand. The Annual Financial Statements, together with the fixed asset register and stock sheets, should generally provide guidance on the cost and the book value. In some instances, the fair value (OMV) may be reflected. The cost may be lower than the OMV in certain instances. However, in the case of depreciable assets, the OMV may be lower. The depreciated value of the asset as per the Annual Financial Statements will be considered to fairly reflect the OMV of that asset.⁴²</p>	

⁴² Note that the cost and OMV for purposes of sections 8(2) and 10(5) include tax.

Example 4 – Determination of the open market value: Stock*Facts:*

GHI School purchases various items for sale in its tuck shop, such as soft drinks, sweets, and crisps. The cost of these items is allocated to its tuck shop cost centre in its accounting records. GHI School recovers all direct and indirect costs in determining the mark-up for the sale of these items in the tuck shop. GHI charges VAT on its tuck shop sales and deducted VAT in respect of the purchase of these items. GHI School does not hold large quantities of tuck shop stock on hand. However, on 31 December 2025, according to its stock records, tuck shop items valued at a cost of R20,000 were on hand.

Result:

For fast-moving consumables, it is considered that there would not be a significant difference between the cost and the OMV. Therefore, GHI School can use the cost per its financial records⁴³ for the purposes of sections 8(2) and 10(5). GHI School is liable for output tax under section 8(2) read with section 10(5) of: R2 608.70 (R20 000 × 15 / 115).

3.5 Donated goods or services

The sale of any donated goods or services, or other manufactured goods by an “association not for gain”, as defined in section 1(1), is exempt from VAT if the donated goods and services constitute at least 80% of the value of the supply.⁴⁴ For more information, see the *VAT 414 – Guide for Associations not for Gain and Welfare Organisations*. To the extent that a school is an “association not for gain”, any donated goods on hand are not considered to be enterprise assets for the purposes of section 8(2), as the supply of these goods will be exempt. In the case of a school that is not an association not for gain, or is an association not for gain but the aforementioned 80% test is not met, the school will also not be required to account for any output tax under section 8(2), as such goods have been donated, and therefore their cost is zero.

3.6 Further adjustments for input tax not previously claimed

As the school is required to account for output tax on its enterprise assets, an adjustment may be made for any input tax not previously deducted under section 16(3)(h). For example, in the case of an asset that was partially used to make taxable supplies, and partially to make exempt supplies, the deduction is now allowed to the extent to which the school used the asset or right to make exempt supplies of educational services under section 12(h) (that is, the extent that input tax was not previously claimed).⁴⁵

The amount that qualifies as a deduction is determined by means of the following formula:

$$A \times B \times C$$

in which –

A = The tax fraction;

B = The lesser of adjusted cost* or OMV

⁴³ Note that the cost for purposes of sections 8(2) and 10(5), includes tax charged on acquisition.

⁴⁴ See section 12(b).

⁴⁵ For more details on change-in-use adjustments, see Chapter 9 of the VAT 404 and the VAT 409.

C = The percentage of use or application for purposes other than making taxable supplies, as a proportion of the total use or application of the goods or services, immediately before the time of supply contemplated in sections 8(2) and 9(5).

* “[A]djusted cost”, as defined in section 1(1), means –

“the cost of any goods or services where tax has been charged or would have been charged if section 7 of this Act had been applicable prior to the commencement date, in respect of the supply of goods and services or if the vendor was or would have been entitled to an input tax deduction in terms of paragraph (b) of the definition of ‘input tax’.

The adjusted cost is deemed to include the OMV to the extent that it exceeds the monetary consideration for a supply of goods or services. This applies to the consideration on acquisition determined to be the OMV under section 10(4) (supplies between connected parties for no consideration, or a consideration below OMV).

The amount is determined with reference to “B” in the formula contemplated in section 18(4). This applies to goods or services on which a deduction was made under section 18(4), that is, an input tax deduction was allowed on goods or services originally held for exempt or private purposes, but subsequently applied for consumption, use, or supply in the course of making taxable supplies.

The amount is determined with reference to “A” in the formula contemplated in section 10(9) if an adjustment was previously made under section 18(2) due to a decrease in the taxable use or application of capital goods or services. Alternatively, it is determined with reference to “B” in the formula contemplated in section 18(5) if an adjustment was made for an increase in the taxable use or application of taxable goods or services.

The OMV is determined under section 3 at the time those goods or services are deemed to be supplied, which is the time determined under section 9.⁴⁶

Example 5 – “Claw-back” input tax adjustment

Facts:

CDE School purchases an asset on 10 June 2022 for R140 000. It is used 98% for exempt supplies and 2% for taxable supplies. Assume the apportionment ratio remained the same for the last three financial years.

What is the VAT treatment of the above as a result of CDE School ceasing to be a vendor? Assume the cost and the adjusted cost of the asset is R140 000, and this is lower than the OMV of R150 000.

Result:

10 June 2022

CDE School was required to use the standard turnover-based method of apportionment to calculate the apportionment ratio of 2%.⁴⁷ As a result, CDE School would have deducted input tax of R365,22 $([15 / 115 \times R140\ 000] \times 2\%)$.

⁴⁶ See sections 8(2) and 9(5).

⁴⁷ See Binding General Ruling 16 “Standard Apportionment Method”, allowing the use of an alternative apportionment method.

31 December 2025

CDE School was required to determine the amount of output tax based on the lower of the adjusted cost or OMV of the asset. This amount is R18 260,87 ($R140\,000 \times 15 / 115$).

An input tax credit for the portion of VAT previously disallowed (98% used for exempt supplies) must also be determined.

The adjustment is determined by the formula:

$$A \times B \times C$$

in which –

A represents the tax fraction, namely $15 / 115$;

B represents the lesser of –

- (i) the adjusted cost of the asset, namely R140 000; or
- (ii) the OMV of the asset, namely R150 000; and

C represents the extent of the exempt use of the building before the school ceases to be a vendor (that is, 98%).

$$\text{Input tax adjustment} = [R140\,000 \times 15 / 115] \times 98\% = R17\,895,65$$

The net liability under section 8(2) would therefore be R18 260,87 less R17 895,65, which amounts to the R365,22 deducted in 2022.

3.7 Key takeaways: Exit VAT time and value of supply

In summary, the following points are key:

- The section 8(2) liability is determined as at 31 December 2025.
- The deemed supply is valued at the lower of cost or OMV.
- Schools should use their records, including financial statements, asset registers, and stock sheets to determine cost or OMV.
- Public schools on State land generally incur no cost for the right of occupation itself, but improvements may still need to be valued.
- Public schools on private land generally do not hold the relevant real right themselves, but improvements may still be relevant.
- Independent schools leasing land may need to value a right-of-use asset.
- Donated goods or rights, or assets acquired for no consideration, generally have a zero cost.
- Movable assets, stock on hand, and rights of use must also be valued using the lower of cost or OMV.
- A school may reduce its net exit VAT liability by claiming a deduction under section 16(3)(h) for the portion of input tax on an enterprise asset that was not previously deducted.

Chapter 4

Input tax and deductions

4.1 General

Deductions are governed by sections 16(3) and 17, provided the recipient possesses the documentary proof prescribed by section 16(2) at the time the deduction is made. Schools must ensure that as far as possible, any deductions not previously made are included in the return for the tax period during which 31 December 2025 falls. This means the 01/2026 tax period for schools registered on Category A, and the 12/2025 tax period for schools registered on Category B. This is subject to the relevant claw-back provisions under sections 22, as discussed above. Instances in which input tax or other deductions were not made, are discussed below. Deductions under section 16(3)(h) must be set off against the liability under section 8(2). Schools will be informed in due course how to disclose the liability for the exit VAT.

4.1.1 Apportionment⁴⁸

VAT incurred on goods or services acquired partly for the purpose of making taxable supplies, and partly for making exempt or other non-taxable supplies, only qualifies as “input tax” to the extent determined by a formula approved by the Commissioner in a VAT ruling issued to the vendor, or a Binding General Ruling issued under Chapter 7 of the TA Act.

The only pre-approved method that may be used to apportion VAT incurred for mixed purposes without specific prior written approval from the Commissioner is the standard turnover-based method (see Binding General Ruling 16). In circumstances when the standard turnover-based method is inappropriate because it produces an absurd result, proves impossible to use, or does not yield a fair approximation of the extent of taxable application of the enterprise’s VAT-inclusive expenses, the vendor must approach SARS to obtain approval to use an alternative method that yields a more accurate result.

Practically, the apportionment method is applied, using an estimate during the current financial year, based on the ratio calculated from the previous financial year’s actual figures. Under Binding General Ruling 16, the vendor is allowed to make an adjustment (that is, the difference in the ratio when applying the current and previous year’s turnover) within nine months after the end of the financial year.

These calculations must be performed for purposes of calculating the school’s liability as at 31 December 2025.

4.1.2 Deductions made in a later tax period

Paragraph (i) of the proviso to section 16(3) allows a vendor to make a deduction of input tax or other amounts in a later tax period, provided it does not fall outside of a period of five years after the end of the tax period during which, amongst other things –

- the tax invoice should have been issued by the supplier of the goods or services; or
- the tax period during which the vendor first became entitled to the deduction, notwithstanding the documentary proof that the vendor must be in possession of in terms of section 16(2).

⁴⁸ See Chapter 8 of the VAT 404.

Schools should ensure that any amounts not previously deducted are claimed in the 01/2026 tax period for schools registered under Category A, and the 12/2025 tax period for schools registered under Category B. Schools will be allowed to only make deductions in respect of acquisitions before 1 January 2026, in tax periods on or after 1 January 2026 in limited circumstances.

4.1.3 Vendor is not in possession of prescribed documentation

A vendor is not entitled to claim input tax or make a deduction of any amount under section 16(3), unless the vendor possesses documentary evidence prescribed under section 16(2). For example, if a vendor purchased goods during the 07/2025 tax period but only obtained the tax invoice in the 09/2025 tax period, the deduction may only be made in the 09/2025 tax period, provided the goods were acquired wholly, or partly for making taxable supplies. This scenario differs from the situation in **4.1.2** in which the vendor is entitled to a deduction in a tax period but chooses to make it in a future tax period, or the situation in **4.1.4** below, in which the vendor unable to obtain the prescribed documentation. In limited circumstances, a school will only be able to make a deduction for tax invoices received for acquisitions made before 1 January 2026, after submitting the return for the 01/2026 tax period (for schools registered under Category A) and the 12/2025 tax period (for schools registered under Category B).

4.1.4 Vendor unable to obtain prescribed documentation

In certain circumstances, a vendor that could not obtain the prescribed documentary proof under section 16(2), may apply for a VAT ruling,⁴⁹ requesting the Commissioner to confirm that alternative documentary proof held by the vendor may be used to substantiate a deduction. If such application is successful, the vendor may make the deduction in the tax period during which both the ruling and the alternative documentary evidence accepted by the Commissioner are held by the vendor. As previously stated, schools are not entitled to any deductions for acquisitions made on or after 1 January 2026.

4.1.5 Input tax incorrectly deducted

Generally, schools should only have been entitled to deduct input tax on goods or services to a limited extent, as these goods or services would mainly have been acquired for making exempt supplies of educational services. Unless a school had approval to use an alternative apportionment method, any mixed-use input tax should have been claimed only in accordance with the standard turnover-based method referred to in Binding General Ruling 16. To the extent that a school overclaimed input tax, SARS may raise assessments for the underdeclared VAT, and such amounts may be subject to penalties and interest.

Schools are encouraged, as part of exiting the VAT system, to make voluntary corrections if input tax was incorrectly deducted. If a school deducted input tax in full or in part for goods or rights, including improvements made to fixed property, these will be considered enterprise assets subject to section 8(2). Additional assessments, including penalties and interest, will be raised should a school not declare these as part of its exit VAT calculation.

⁴⁹ See the *VAT Reference Guide – VAT Rulings Process* for details on the application process.

Chapter 5

Miscellaneous issues

5.1 Transitional rules

The extension of the exemption in section 12(h)(iv) to certain supplies previously considered taxable, which fell outside of the scope of the exemption in section 12(h)(ii) before its amendment, effectively withdraws tax (that is, VAT) on these supplies. Consequently, the transitional rules under section 67A apply to a school that has made a taxable supply and ceases to be a vendor before the date on which the supply is deemed to be made.

With regard to the general time of supply rule under section 9(1), if either the invoicing or any payment of any part of the purchase price for a supply occurs –

- before 1 January 2026

The supply will be taxable at the standard rate to the extent that such supply is not exempt under section 12(h)(ii) (as worded before 1 January 2026)

- on or after 1 January 2026

The supply will be exempt under section 12(h)(iv).

For most transactions, the general time of supply rule will apply. However, some transactions have special time of supply rules, such as supplies between connected persons, fixed property transactions, and supplies made under instalment credit agreements. For further details, see the *Frequently Asked Questions: Increase in the VAT Rate from 1 April 2018*.

5.2 Welfare organisations

With effect from 1 January 2026, section 12(h)(iv) exempts the supply of any goods or services by a school, excluding supplies made in respect of welfare activities by a welfare organisation. To the extent that an entity makes exempt supplies, it is not conducting an “enterprise”⁵⁰ and is therefore not entitled to deduct “input tax” as defined in section 1(1) on goods or services acquired for consumption, use, or supply in the course of making such exempt supplies.

The activities of a welfare organisation listed in Regulation 112 (published in *Government Gazette* 27235 of 11 February 2005) are specifically included in paragraph (b)(ii) of the definition of “enterprise” in section 1(1).⁵¹ VAT on expenses incurred in the course of conducting these welfare activities therefore qualifies as “input tax”, subject to sections 16(3) and (2). However, paragraphs (a) and (b) of the definition of “enterprise” in the VAT Act are subject to proviso (v) of that definition. Consequently, the classification of such activities as “enterprise” activities is overridden if they are supplied in the course of making exempt supplies contemplated in section 12, as proviso (v) to the definition of “enterprise” takes precedence.

⁵⁰ See proviso (v) to the definition of “enterprise” in section 1(1).

⁵¹ See the *VAT 414 – Guide for Associations not for Gain and Welfare Organisations* for more information.

Before the activities listed in Regulation 112 can be considered, it is a requisite under the definition of “welfare organisation”⁵² that the entity concerned must be a public benefit organisation as contemplated in paragraph (a) of the definition of “public benefit organisation” (PBO) in section 30(1) of the Income Tax Act 58 of 1962, and must have been approved by the Commissioner under section 30(3) of the same Act.

If a school has the requisite PBO status, it follows that even if a particular activity can be a determined as a welfare activity, to the extent that it includes, or contains, as a necessary part or result, or is directly undertaken in the course or furtherance of the supply of educational services by the school, such activity does not amount to the carrying on of a welfare activity and, as a consequence, an enterprise⁵³.

Under section 12(h)(iv), a school seeking to remain registered as a vendor on the basis that it is a “welfare organisation” and makes supplies in respect of welfare activities must obtain written confirmation from the Commissioner by way of a ruling issued under section 41B. See the *Reference Guide – VAT Rulings Process* for details on the application process. These schools will only be permitted to remain on register for the welfare activities conducted, and the exempt educational activities that do not form part of the “enterprise” will be ringfenced.

5.3 Payment arrangements

A special dispensation is granted to schools under sections 8(2H) and 9(14). This effectively allows a school that ceases to be a vendor on 1 January 2026 – solely as a result of the exemption in section 12(h)(iv) – to pay the tax due under section 8(2) in 12 equal monthly instalments, or in a number of monthly instalments permitted by the Commissioner. Such instalments will become payable only from 1 January 2027.

As a result of these extended payment arrangements, a school’s VAT registration will be cancelled only once the exit VAT has been paid, notwithstanding that the school ceases to carry on an enterprise from 1 January 2026 until 31 December 2026. The payment arrangements are interest- and penalty-free provided the school adheres to the payment arrangements contemplated in section 8(2H).

No output tax must be charged on supplies made, and no input tax may be deducted, from 1 January 2026. Therefore, schools will generally submit nil returns for tax periods commencing 1 January 2026 until 31 December 2026. However, schools registered under Category A will still include their December 2026 figures in the VAT 201 return for 01/2026. Refer to **5.4** if returns were submitted, VAT charged, and input tax or other deductions made for transactions on or after 1 January 2026. Also see the exceptions relating to welfare organisations in **5.2**.

Schools that can make the requisite payments in 12 equal monthly instalments from 1 January 2027 need not make special arrangements with SARS and must commence making these payments. All schools will be required to complete a Payment Arrangement Letter (see **Annexure B**). SARS will communicate further details regarding payment arrangements through notices sent to affected schools.

⁵² See section 1(1).

⁵³ See section 12(h).

Example 6 – Liability under section 8(2) paid in 12 equal monthly instalments*Facts:*

ABC School determines its liability under section 8(2) to be R1 000 000 as at 31 December 2025. It decides to pay this amount in 12 equal monthly instalments.

Result:

ABC School must make payment of VAT of R83 333,33 (R1 000 000 / 12) each month, from 1 January 2027 until 31 December 2027.

Example 7 – Liability under section 8(2) paid in more than 12 equal monthly instalments*Facts:*

EFG School determines its liability under section 8(2) to be R1 000 000 as at 31 December 2025. An agreement is reached with SARS to pay the amount in 36 equal monthly instalments.

Result:

ABC School must pay VAT of R27 777,78 (R1 000 000 / 36) each month, from 1 January 2027 to 31 December 2028.

5.4 VAT charged on supplies that are exempt from 1 January 2026

As indicated above, the Taxation Laws Amendment Act 5 of 2026 was promulgated on 1 April 2026. However, these legislative changes are effective from 1 January 2026. As a result, schools would have levied VAT at the standard rate on their taxable supplies and would have claimed input tax and other deductions from 1 January 2026 until 31 March 2026. Schools would also have submitted returns for their 02/2026 or 03/2026 tax periods.

Section 31(1)(e) provides that the Commissioner will make an assessment if a vendor represents that tax is charged on a supply, even if that supply is not taxable. Therefore, if a school charged VAT on its tuck shop or uniform sales between 1 January 2026 and 31 March 2026, such tax is payable to SARS. The same principle applies to a school that continued to charge VAT on or after 1 April 2026. However, the school will not be entitled to any input tax on these supplies, as they are exempt, and the school is no longer conducting an enterprise from 1 January 2026.

To rectify the above, schools should take the following actions:

- Issue credit notes for the VAT charged on the supplies.
SARS will only refund the VAT previously charged if there is proof that the VAT has been repaid to the recipient.
- Submit a Request for Correction (RFC) if input tax and other deductions were made.
Refer to Request for Correction on the **SARS website** for more details.
- Request remission of penalties and interest, if applicable.
The school will not be held liable for penalties or interest in this regard, as the law was amended retrospectively.

Glossary

Association not for gain	<p>Any religious institution, society, or organisation that is carried on, otherwise than for profit and, in terms of its written constitution, which governs it –</p> <ul style="list-style-type: none">• is required to use any property or income solely in the furtherance of its aims;• is prohibited to transfer any portion of property or income to any person, except as reasonable remuneration for services provided; and• is obliged, at its winding-up or liquidation to give or transfer its assets after satisfaction of debts, to another similar society. <p>It can also be an educational institution of a public character which –</p> <ul style="list-style-type: none">• is carried on not for profit;• is in terms of its memorandum which governs it required to use any property or income solely in the furtherance of its aims; and• is prohibited to transfer any portion of property or income to any person, except as reasonable remuneration for services rendered.
Connected person	<p>Describes and identifies the relationships between different persons which includes, but is not limited to: family relatives, partnerships, trust beneficiaries, branches of the same legal entity, and companies with the same shareholders. If persons are connected in terms of the definition, it may be necessary to apply special time and value of supply rules that require VAT to be charged based on the OMV of the supply, rather than on the amount of consideration received.</p> <p>Examples include the following (amongst others):</p> <ul style="list-style-type: none">• Natural persons who are related by blood or marriage• A company and subsidiaries of that company• Any close corporation and its members• A natural person and a company where that natural person is interested in 10% or more of the company's paid-up capital, equity shares or voting rights in that company.
Consideration	<p>This is generally the total amount of money (including VAT) received for a supply. For barter transactions involving a consideration that is not in money, the consideration will be the OMV of goods or services (including VAT) received for making the taxable supply. Section 10 determines the value of supply or amount of the consideration for VAT purposes for different types of supplies.</p> <p>Any act or forbearance whether voluntary or not, for the inducement of a supply of goods or services will constitute consideration, but it excludes any donation made as an unconditional gift to an association not for gain. Also excluded is a "deposit" which is lodged to secure a future supply of goods and held in trust until the time of the supply. Since VAT is the difference</p>

between the selling price (including VAT) and the value of the taxable supply, the following formulae can be derived:

VAT = consideration – value <u>or</u> Consideration = value + VAT

Donation A payment made voluntarily to an association not for gain, for the purpose of carrying out its objectives. The person making the payment must not receive any identifiable direct valuable benefit as a result of the gift.

Enterprise Includes any business activity in the broadest sense. This encompasses any activity carried on –

- continuously or regularly;
- by any person;
- in or partly in the RSA;
- in the course or furtherance of which goods or services are supplied for a consideration to another person, that is, some form of payment;
- whether or not for profit.

Special inclusions for enterprise activities:

- Public authorities – certain government departments and provincial authorities
- Municipalities
- Welfare organisations and FDFPs⁵⁴
- Share-block companies
- Non-residents supplying certain electronic services (this includes the activities of local and non-resident intermediaries) during which at least two out of three of the following circumstances apply, namely:
 1. The electronic services are supplied to a South African resident;
 2. Payment originates from the RSA; or
 3. The recipient has an address (that is business, postal or residential) in the RSA.

The following activities are not considered “enterprise” activities and will therefore not attract VAT:

- Services rendered by an employee to an employer for example, salary/wage/remuneration earners. This must however be distinguished from a private independent contractor who is not excluded
- Supplies by a branch or main business permanently located outside the RSA (must be separately identifiable and maintain its own system of accounting)

⁵⁴ The definition of “enterprise” was amended to include reference to the activities of an implementing agency in respect of the FDFP activities rather than to regard the FDFP as a “person”.

- Private or recreational pursuits or hobbies (unless carried on like a business)
- Private occasional transactions for example, occasional sale of domestic/household goods, personal effects or private motor vehicle
- Any exempt supplies (listed in section 12)
- The supply of commercial accommodation^{196F⁵⁵} of a value of less than R120 000 per annum.

Exempt supplies

An exempt supply is a supply on which no VAT may be charged (even if the supplier is registered for VAT). Persons making only exempt supplies may not register for VAT and may not recover input tax on purchases made to produce exempt supplies.

Section 12 contains a list of exempt supplies, and include, amongst others –

- certain “financial services” as defined;
- supplies by any “association not for gain” of any donated goods or services or any other goods made or manufactured by such association if at least 80% of the value of the materials used in making or manufacturing such other goods consists of donated goods;
- rental of accommodation in any “dwelling” including employee housing;
- certain educational services;
- services of employee organisations for example, trade unions;
- certain services to members of a sectional title, share block or old age scheme funded out of levies. (Not applicable to timeshare schemes);
- public road and railway transport of fare-paying passengers and their luggage; and
- childcare services in a crèche or after-school care centre.

Goods

The term “goods” includes –

- corporeal (tangible) movable things, goods in the ordinary sense (including any real right in those things);
- fixed property, land and buildings (including any real right in the property for example, servitudes, mineral rights, notarial leases);
- sectional title units (including timeshare);
- shares in a share block company;
- postage stamps;
- electricity; and
- second-hand goods.

⁵⁵ Paragraph (a) of commercial accommodation in section 1(1).

The term “goods” excludes –

- money, that is, notes, coins, cheques, bills of exchange (except when sold as a collector’s item);
- value cards, revenue stamps etc which are used to pay taxes (except when sold as a collector’s item); and
- any right under a mortgage bond.

Independent school

A school registered under section 46 of the South African Schools Act 84 of 1996.

Input tax

This includes, amongst others, the tax paid by the recipient to the supplier of goods or services, the VAT paid on the importation of goods and includes notional input tax on second-hand goods. Input tax may only be deducted by the recipient vendor if the goods or services are acquired for making taxable supplies and if the vendor is in possession of the relevant documentary proof under section 16(2)(a) to (e). Under section 16(2)(g), a vendor may in certain circumstances deduct input tax based on alternative documentary evidence acceptable to the Commissioner in terms of a ruling issued by the Commissioner.

An apportionment of input tax must be made if goods or services are acquired only partly for making taxable supplies.

In the case of an importation, when the bill of entry or other documentation prescribed by the Customs and Excise Act reflects the vendor as the importer, the vendor must be in possession of such document together with the receipt for the payment of the VAT in relation to the importation of the goods and the EDI Customs Status 1 Release Message. Should the vendor not be in possession of the aforementioned documentation, it must in terms of section 54(3)(b) be in possession of the statement issued by the agent when deducting input tax under section 16(3)(a)(iii) or (b)(ii).

For second-hand goods acquired by the vendor, the vendor must retain a proper record of the details of the transaction on a **VAT264** Form. Should the second-hand goods acquired constitute fixed property, the transfer of which requires registration in a Deeds Registry, input tax may only be deducted once the property has been registered in the name of the vendor claiming a deduction and is limited to the extent that the consideration for the property has been paid.

As a general rule, input tax may not be deducted on supplies of “entertainment”, motor cars, and club subscriptions. Input tax may also not be deducted when goods or services are acquired for the purpose of making exempt supplies, for private use, or for other non-taxable activities.

Person

This term refers to the entity which is liable for VAT registration and includes the following:

- Sole proprietor, that is, a natural person
- Company/CC
- Partnership/joint venture
- Deceased/insolvent estate

	<ul style="list-style-type: none"> • A trust • Incorporated body of persons for example, an entity established under its own enabling Act of Parliament • Unincorporated body of persons for example, a club, society or association with its own constitution • A municipality • A public authority
Public school	A school contemplated in Chapter 3 of the South African Schools Act 84 of 1996.
Recipient	The person to whom a supply of goods or services is made.
SARS	South African Revenue Service
Services	<p>The term “services” is very broad and includes –</p> <ul style="list-style-type: none"> • the granting, assignment, cession, surrender of any right; • the making available of any facility or advantage; and • certain acts which are deemed to be services under section 8. <p>The term excludes –</p> <ul style="list-style-type: none"> • a supply of “goods”; • money; and • any stamp, form or card which falls into the definition of “goods”. <p>Examples:</p> <ul style="list-style-type: none"> • Commercial services – electricians, plumbers, builders. • Professional services – doctors, accountants, lawyers. • Advertising agencies. • Intellectual property rights – patents, trade marks, copy rights, know-how. • Restraint of trade. • Cover under an insurance contract.
School	A school registered under the South African Schools Act 84 of 1996.
Supply	The definition is very wide and includes all forms of supply (including the expropriation of fixed property), irrespective of where the supply is effected, and any derivative of supply is construed accordingly.
Taxable supplies	<p>This is a supply (including a zero-rated supply) that is chargeable with tax under the VAT Act. It does not include any exempt supply listed in section 12, even if supplied by a registered vendor.</p> <p>There are two types of taxable supplies, namely –</p> <ul style="list-style-type: none"> • those which attract the zero rate (listed in section 11); and • those on which the standard rate must be charged.

Tax period	<p>There are five different tax periods as follows:</p> <ul style="list-style-type: none">• Category A – two-monthly (ending at the end of every odd month). For example, Jan, Mar, May, July• Category B – two-monthly (ending at the end of every even month). For example, February, April, June• Category C – monthly (taxable supplies greater than R30 million in any consecutive period of 12 months)• Category D – six-monthly (certain farmers and micro-businesses – taxable supplies less than R1,5 million in any consecutive period of 12 months)• Category E – annually (only in exceptional circumstances for connected persons with only one transaction per consecutive period of 12 months)
Time of supply	<p>As a general rule, a supply is deemed to take place at the earlier of the time an invoice is issued, or the time any payment of consideration is received by the supplier. Section 9 provides for specific time of supply rules (for example, connected persons, periodic or progressive supplies, fixed property etc.).</p>
Value of supply	<p>The price charged, excluding VAT. Section 10 makes provision for specific value of supply rules (e.g., connected persons, ICAs, tokens, vouchers or stamps etc.).</p>
VAT	<p>The acronym for “value-added tax”.</p>
Vendor	<p>Any person that is registered, or is required to be registered for VAT. Therefore, any person making taxable supplies in excess of the threshold for compulsory registration prescribed in section 23, is a vendor regardless of whether or not the person is registered as such. The registration threshold is currently R1 000 000 in taxable supplies in a consecutive period of 12 months.</p>
Welfare activities	<p>Welfare activities, for VAT purposes, are listed in Regulation No. 112 in <i>Government Gazette</i> 27235 issued on 11 February 2005. Welfare activities must be carried on by an approved PBO for income tax purposes before the organisation may qualify as a welfare organisation.</p>
Welfare organisation	<p>This is any PBO that has been approved by the Commissioner in terms of section 30(3) of the Income Tax Act, and which carries on a welfare activity determined by the Minister to be of a philanthropic or benevolent nature, under the following headings:</p> <ul style="list-style-type: none">(a) Welfare and humanitarian.(b) Health care.(c) Land and housing.(d) Education and development.(e) Conservation, environment and animal welfare. <p>The VAT Act contains specific benefits which apply to welfare organisations. The main benefit is that they can register for VAT and</p>

obtain a refund of VAT incurred to the extent that they carry on welfare activities, even if those supplies are made for no consideration.

Contact details

The **SARS website** contains contact details of all SARS service centres and border posts.

Contact details appearing on the website under “Contact Us” (other than service centres and border posts) are reproduced below for your convenience.

Digital channels

E-mail

- For tax practitioners: **pcc@sars.gov.za**
- For taxpayers: **contactus@sars.gov.za**

When you send an e-mail to the above mailboxes, you will receive an automated reply with a case number assigned. For ease of use, this number will be quoted in related correspondence on the progress of the case.

SARS Online Query System

Use the Digital Service offerings available through the SARS Online Query System (SOQS). Navigate to ‘Contact Us’ on the SARS website **www.sars.gov.za** and click on “Send us a Query”.

Online appointments

Use the online booking system to request an appointment whether online or before visiting a SARS branch. Go to ‘Contact Us’ on the **SARS website** and click on “Make an appointment”.

SARS Head Office

Physical Address

South African Revenue Service
Lehae La SARS
299 Bronkhorst Street
Nieuw Muckleneuk
0181
Pretoria

Postal Address

Private Bag X923
Pretoria
0001
South Africa

SARS website

www.sars.gov.za

Telephone

012 422 4000

SARS Fraud and Anti-Corruption Hotline

0800 00 28 70

Complaints Management Office

Telephone

0860 12 12 16

SARS Websitewww.sars.gov.za**Office**

Any SARS Service Centre

SARS Contact Centre

0800 00 7277

eFiling Websitewww.sarsefiling.gov.za

SARS Contact Centres

- You may contact SARS by phone, e-mail or visiting a SARS service centre. Before visiting a service centre, remember to “Make an Appointment”. Find the function under “Contact Us” on the **SARS website**.
- Call our SARS Contact Centre on 0800 00 7277
- International Callers may contact our Contact Centre on +27 11 602 2093

Practitioners

Telephone / Contact Centre

0800 00 72 77

E-mailpcc@sars.gov.za**Business hours**

Weekdays 08:00 – 16:00 (except Wednesdays)

Wednesdays 09:00 – 16:00

Before visiting a service centre, remember to “Make an Appointment”. Find the function under “Contact Us” on the **SARS website**.

VAT Rulings

Should there be any aspects relating to VAT on which a specific VAT Ruling is required, you may submit a ruling application on a VAT301 to SARS by e-mail to VATRulings@sars.gov.za. All applications must comply with section 79 of the TA Act [excluding section 79(4)(f), (k) and (6)].

Annexure A – Determining how the liability under section 8(2), as well as some of the other claw-back provisions, should be calculated

Below are some examples of determining how the liability under section 8(2), as well as some of the other claw-back provisions, should be calculated.

Examples	Real rights in fixed property (i.e. rights relating to the use of land): Lower of cost or OMV	Fixed property (e.g. land, buildings, attachments, or improvements): Lower of cost or OMV	Corporeal movable things, stock (e.g. computer equipment, stationery, furniture, food and beverages, ⁵⁶ uniforms etc): Lower of cost or OMV	VAT
Public school: Land owned by the state	R0,00 (The school incurred no cost to obtain the real right.)	The school made improvements at a cost of R1 000 000, with an OMV of R500 000. VAT is therefore due under section 8(2) on the OMV.		R65 217,39 ($R500\ 000 \times 15 / 115$)
Section 16(3)(h) The school previously deducted VAT at 2% of the cost of the R1 000 000, which was R2 608,70 [$(R1\ 000\ 000 \times 15 / 115) \times 2 / 100$]. The school is now entitled to a deduction on the lower of cost or OMV, being 98% of the VAT on R500 000.				-R63 913,04 [$(R500\ 000 \times 15 / 115) \times 98 / 100$]]

⁵⁶ Only to the extent the requirements for a deduction in respect of “entertainment” are met. See 3.3.1.

Examples	Real rights in fixed property (i.e. rights relating to the use of land): Lower of cost or OMV	Fixed property (e.g. land, buildings, attachments, or improvements): Lower of cost or OMV	Corporeal movable things, stock (e.g. computer equipment, stationery, furniture, food and beverages, ⁵⁶ uniforms etc): Lower of cost or OMV	VAT
Public school: Land owned by third party	R0 (The school does not own the real right.)	The school made improvements at a cost of R1 000 000 with an OMV of R500 000. VAT is therefore due under section 8(2) on the OMV.		R65 217,39 (R500 000 × 15 / 115)
Section 16(3)(h): The school previously deducted VAT at 2% of R1 000 000, which was R2 608,70 [(R1 000 000 × 15 / 115) × 2 / 100]. The school is now entitled to a deduction on the lower of cost or OMV, being 98% of the VAT on R500 000.				-R63 913,04 [(R500 000 × 15 / 115) × 98 / 100]
Independent school: Land owned by third party: no rental payable	R0 (The cost is zero.)	The school made improvements at a cost of R1 000 000 with an OMV of R500 000. VAT is therefore due under section 8(2) on the OMV.		R65 217,39 (R500 000 × 15 / 115)

Examples	Real rights in fixed property (i.e. rights relating to the use of land): Lower of cost or OMV	Fixed property (e.g. land, buildings, attachments, or improvements): Lower of cost or OMV	Corporeal movable things, stock (e.g. computer equipment, stationery, furniture, food and beverages, ⁵⁶ uniforms etc): Lower of cost or OMV	VAT
<p>Section 16(3)(h): The school previously deducted VAT at 2% of the cost of R1 000 000, which was R2 608,70 $[(R1\ 000\ 000 \times 15 / 115) \times 2 / 100]$. The school is now entitled to a deduction on the lower of cost or OMV, being 98% of the VAT on R500 000.</p>				<p>-R63 913,04 $[(R500\ 000 \times 15 / 115) \times 98/100]$</p>
<p>Independent school: Land owned by third party: rental payable</p>	<p>The school has a 10-year lease with annual rentals payable in advance of R300 000. The discount rate is 14%. The cost is R17 783 911.55, The right-of-use asset is depreciated on a straight-line over the period of the lease, and the value is currently R1 427 129,24.</p>	<p>The school made improvements at a cost of R1 000 000 with an OMV of R500 000. VAT is therefore due under section 8(2) on the OMV.</p>		<p>Right- of-use asset: R186 147,29 $(R1\ 427\ 129,24 \times 15 / 115)$ Improvements: R65 217,39 $(R500\ 000 \times 15 / 115)$</p>

Examples	Real rights in fixed property (i.e. rights relating to the use of land): Lower of cost or OMV	Fixed property (e.g. land, buildings, attachments, or improvements): Lower of cost or OMV	Corporeal movable things, stock (e.g. computer equipment, stationery, furniture, food and beverages, ⁵⁶ uniforms etc): Lower of cost or OMV	VAT
<p>Section 16(3)(h): Right-of-use asset:</p> <p>The school deducted 2% of the VAT on rental payments for the past 8 years $(R300\ 000 \times 8) = R2\ 400\ 000$ $\times 15 / 115) = R313\ 043,48 \times 2 / 100 = R6\ 206,87$. The school is now entitled to a deduction on the lower of cost or OMV, representing 98% of the VAT on R1 427 129,24.</p> <p>Improvements:</p> <p>The school previously deducted VAT at 2% of the cost of R1 000 000, which was $R2\ 608,70 [(R1\ 000\ 000 \times 15 / 115) \times 2 / 100]$. The school is now entitled to a deduction on the lower of cost or OMV, representing 98% of the VAT on R500 000.</p>				<p>Right-of-use asset $-R182\ 424,35 [(R1\ 427\ 129,2 \times 15 / 115) \times 98 / 100]$</p> <p>Improvements: $-R63\ 913,04 [(R500\ 000 \times 15 / 115) \times 98 / 100]$</p>

Examples	Real rights in fixed property (i.e. rights relating to the use of land): Lower of cost or OMV	Fixed property (e.g. land, buildings, attachments, or improvements): Lower of cost or OMV	Corporeal movable things, stock (e.g. computer equipment, stationery, furniture, food and beverages, ⁵⁶ uniforms etc): Lower of cost or OMV	VAT
Owned land (unencumbered)	R0 (Regard is given to the cost and OMV of the physical fixed property.)	R3 000 000 (The cost is R3 000 000 and the OMV is R5 000 000.)		R391 304,78
Section 16(3)(h) (The school previously deducted VAT at 2% of the cost of R3 000 000, which was R7 826,10.)				-R383 478,68 (R391 304,78 less R7 826,10)
School uniforms on hand (The cost is R200 000 and the OMV is R250 000.)			R200 000	R26 086,96
Tuck shop stock on hand (The cost is R50 000 and the OMV is R60 000.)			R50 000	R6 521,74
Creditors to the VAT-inclusive value of R200 000 not paid within 12 months (These assets are not subject to section 8(2) as the claw-back is under section 22(3).)				R26 086,96

Vendor A's records for the month of November and December 2025 reflects the following:

Description	Amount
Sales (inclusive of VAT)	250 000,00
VAT on sales	32 608,70
Purchases (inclusive of VAT)	180 000,00
VAT on purchases	23 478,26
OMV of assets (including VAT) (as at 31 December 2025)	3 250 000,00
VAT on OMV of assets	423 913,04
Cost of assets (Including VAT) (the price paid for the assets)	5 550 000,00
VAT on cost of assets	723 913,04
VAT previously claimed on cost of assets (2% of 729 913.04)	14 478,26
Section 16(3)(h) deduction on the lower of cost or OMV, being the VAT on 98% of the cost of R3 250 000 (R3 185 000).	415 434,78

In this instance, the OMV of the assets (R3 250 000) is less than the cost of them (R5 550 000). Therefore, output tax must be calculated on the OMV. Additionally, the adjustment under section 16(3)(h) is also calculated on the lower of cost or OMV. In this example, the amount is R3 250 000 – R3 1 85 000 = R65 000. The VAT amount due is R8 478,26. Vendor A would already have accounted for the output tax and input tax on their normal purchases and sales during the 12/2025 tax period. For the tax period ending December 2025, this would have been as follows:

VAT201 Return Field Number	Description	Amount	VAT
1	Sales	250 000	
4	VAT on sales		32 608.70
15	VAT on purchases		(23 478.26)
	VAT payable		9 130.44

Furthermore, the exit VAT must be declared in the 01/2026 tax period for schools registered under Category A and the 12/2025 tax period for schools registered under Category B. SARS will communicate details regarding disclosing the exit VAT in the *Frequently Asked Questions: Schools Exiting the VAT System*, in due course.

By way of example, failure by a vendor to request to make payments over a period exceeding 12 months, will result in the need for VAT to be paid as follows:

Payment Date	Calculation of VAT payment due in Rands	VAT Amount
29 January 2027	(8 478,26 / 12)	706.52
26 February 2027	(8 478,26 / 12)	706.52
31 March 2027	(8 478,26 / 12)	706.52
30 April 2027	(8 478,26 / 12)	706.52
31 May 2027	(8 478,26 / 12)	706.52
30 June 2027	(8 478,26 / 12)	706.52
30 July 2027	(8 478,26 / 12)	706.52
31 August 2027	(8 478,26 / 12)	706.52
30 September 2027	(8 478,26 / 12)	706.52
29 October 2027	(8 478,26 / 12)	706.52
30 November 2027	(8 478,26 / 12)	706.52
31 December 2027	(8 478,26 / 12)	706.52

If a vendor, for example, obtains approval to make payment over 24 months, the amount in the example above will be calculated as R8 478,26 / 24, and paid accordingly

Annexure B – Payment arrangement letter

Payment Arrangement Letter

Date: [DD Month YYYY]

To: The South African Revenue Service (SARS)

Email: contactus@sars.gov.za

Subject: Declaration of exit VAT liability in terms of section 8(2) of the Value-Added Tax Act, 1991 (Act 89 of 1991) – [SCHOOL NAME]

Dear Sir / Madam

School details

Name of School: [SCHOOL NAME]

VAT Registration Number: [VAT REGISTRATION NUMBER]

Physical Address: [ADDRESS]

Contact Person: [NAME AND SURNAME]

Telephone: [TEL]

Email: [EMAIL]

Background

We write on behalf of the above school in connection with the cancellation of its VAT registration and the associated “exit VAT” consequences. The school ceased (or will cease) to carry on all enterprise for VAT purposes with effect from 1 January 2026 and accordingly applies for cancellation of its VAT registration.

Exit VAT and determining of liability

The school has determined its exit VAT liability in respect of goods, rights and fixed assets held as at 31 December 2025, as contemplated in section 8(2) of the Value-Added Tax Act, 1991 (VAT Act) to be R xxx.

Based on the school’s calculation, the exit VAT liability under section 8(2) **less** the school’s entitlement to a deduction under section 16(3)(h) of the VAT Act amounts to: R xxx.

The net liability payable to SARS is therefore **R [X AMOUNT]**.

Supporting information

We attach the supporting schedule and working papers substantiating the above amount, including the relevant asset listing, cost or open market value considerations (where applicable), and the calculation of the section 16(3)(h) deduction.

Payment arrangements

The school requests that SARS record the above exit VAT amount against its VAT account and confirms the process and reference details for payment.

Requested instalment arrangement (please select one):

Option A: Payment of the amount of **R [X AMOUNT]** in **12** equal monthly instalments, commencing on **1 January 2027**.

Monthly instalment amount: **R [X AMOUNT ÷ 12]**

Option B: Payment of the amount of R [X AMOUNT] over a period exceeding 12 months, specifically [] months, commencing on 1 January 2027 (subject to SARS approval by agreement).

Monthly instalment amount: R [X AMOUNT ÷]

Option C: Payment of the amount of R [X AMOUNT] on [X DATE], before 1 January 2027.

The school undertakes to adhere to the approved payment arrangement. We note that, subject to SARS approval and adherence to the arrangement, no penalties and interest should arise in respect of the agreed instalment plan.

Please do not hesitate to contact the undersigned should you require any additional information.

Sincerely,

[NAME]

[TITLE / POSITION]

For and on behalf of [SCHOOL NAME]

Annexes: [e.g., VAT123e; Exit VAT calculation schedule; Asset register extract; Payment arrangement letter]