



Tax and Legal News

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Tax impact of Covid19 on Landlords (Part 2)

The property industry is a capital intensive industry and some landlords use debt to fund the acquisition of commercial property. Within a property group some companies may grant interest bearing loan funding to other entities within their group in order to fund the acquisition of additional commercial properties.

Due to the value of commercial property, the loan funding required to purchase commercial property would be significant. This would give rise to significant interest income for the lending companies within a property group whereas the borrowing companies would incur significant interest expenses as a result of the loan funding.

What are the potential VAT implications for landlords when it accrues significant interest income and there is a decrease in rental income?

An aspect which landlords may overlook is the impact of a reduction in rent on its VAT liability. Landlords would generally not have a problem with regard to claiming all its input VAT on the expenses it incurs. If the landlord is part of a group of companies and has granted interest bearing loan funding to another group company it could be earning significant interest income. Where the landlord suddenly has a reduction in its rental

income, but still accrues for the interest income, it is possible that the landlord could be faced with a VAT apportionment risk.

Taxpayers, such as commercial property landlords, who primarily generated taxable supplies are unlikely to have previously faced a need to apply VAT apportionment since the ratio of taxable supplies versus total supplies most likely exceeded 95%. Where this ratio falls below 95%, these taxpayers would now be compelled to apply the standard turnover-based method of apportionment when determining the percentage of VAT which they can claim, which will result in the limitation of input VAT.

A limitation in the claiming of its input VAT on expenses incurred would mean that the landlord is likely to have a higher output VAT liability than anticipated which would result in further cash flow constraints for the landlord. As VAT payments are made throughout the year, the cash flow constraints could be significant for landlords.

How can we help?

We can assist with determining whether an input VAT limitation exists and whether a ruling from SARS could be applied for if the standard turnover-based method of apportionment is not regarded as fair and reasonable.

Contact us



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