



Tax and Legal News



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Value-Added Tax: Apportionment calculations and dividends

Section 17(1) of the Value-Added Tax Act (the VAT Act) provides that, where a vendor acquires or imports goods or services partly for consumption, use or supply in the course of making taxable supplies and partly for another intended use, such a vendor may claim input tax only to the extent that such goods or services are acquired for the purposes of making taxable supplies.

Therefore, vendors that make mixed supplies i.e. taxable, non-taxable & exempt supplies must apportion their input tax claims in respect of Value-Added Tax (VAT) incurred on mixed-use acquisitions of goods or services.

To determine the extent to which input tax may be claimed on such mixed-use expenses, the South African Revenue Service (SARS) issued Binding General Ruling 16 (Issue 2) (BGR16). BGR16 prescribes the standard turnover-based method of apportionment that must be used by a vendor.

BGR16 also states that where the prescribed method is inequitable, a vendor may apply to SARS to use an alternative method of apportionment.

To this end, vendors that apply to use a varied turnover-based method of apportionment should take note of SARS' most recent view regarding investment income such as dividends.

According to SARS, there is some investment activity by vendors related to earning dividends and this activity must be included in a varied turnover-based calculation.

This investment activity, according to SARS, must be included in the varied turnover-based calculation by applying a yield to fees/dividends earned by the vendor. This yield, according to SARS, is determined by calculating the difference between the prime interest rate and the Johannesburg Interbank Average Rate (JIBAR) e.g. $7\% - 3.68\% = 3.32\%$ and applying it as follows:

- a. If a management fee is earned, then the yield must be applied to such management fee to determine what amount should be included in the calculation as a deemed dividend e.g. if the yield is 3.32% then the calculation is $3.32\% \times$ the management fee; or
- b. If no management fee is earned, but a dividend is received then the yield must be applied to the dividend received e.g. $3.32\% \times$ dividend received; or

c. Lastly, where no management fee nor dividend is received, but another fee is charged then SARS will apply the yield such other fee.

The calculated amount must then be included in the apportionment calculation as a non-taxable item.

For additional information or assistance, please contact us.

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