South Africa: VAT essentials

Essential information regarding VAT as it applies in South Africa.

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Scope and Rates

What supplies are liable to VAT?
Value-added tax (VAT) is due on any supply of goods or services made by a VAT vendor, in the course or furtherance of an enterprise carried on by the said person. Supply includes all forms of supply, whether voluntary compulsory or by operation of law, irrespective of where the supply is effected.

What is the standard rate of VAT?
The standard rate of VAT is 14 percent.

Are there any reduced rates, zero rates, or exemptions?
Yes. There is an extensive list of zero-rate supplies,
including:

- export of goods
- supply of an enterprise as a going concern
- certain foodstuffs and fuel
- certain services supplied to non-residents
- services physically rendered outside of South Africa
- international transport of goods and passengers
- municipal rates.

The list of exemptions includes:

- supply of financial services
- supply of residential accommodation
- supply of certain educational services
- supply of certain transport services.

Note: it is not possible to recover VAT incurred for purposes of making exempt supplies.

What are the other local indirect taxes beside VAT? Securities Transfer Tax and Transfer Duty.

**VAT grouping**

Is VAT grouping possible?

No

Can an overseas company be included in a VAT group?

N/A.

**Registration**

Who is required to register for South African VAT?

**South African Entities**

Any person, which includes a non-resident company, who carries on an enterprise and whose value of taxable supplies exceeds,
or is likely to exceed ZAR 1 million in a 12-month period. An enterprise means, among other things, any activity continuously or regularly carried on in, or partly in South Africa, whereby goods and services are supplied to another person for a consideration.

Non-South African Entities

See above.

Are there penalties for not registering or late registration?

Not registering on time for VAT is an offense and the offender may be liable to a fine or imprisonment. Furthermore, where a person registers late, additional tax, penalties, and interest may be due.

Is voluntary VAT registration possible for an overseas company?

Yes, provided that the overseas company conducts an enterprise and its value of taxable supplies exceeds ZAR 50,000 in any 12-month period.

Are there any simplifications that could avoid the need for an overseas company to register for VAT?

No. However, in very specific instances SARS may be approached to grant a ruling to the effect that a non-resident company need not register for VAT, such as where a non-resident company will conduct an enterprise for a limited period only or where it conducts a passive activity in South Africa.

Does an overseas company need to appoint a fiscal representative?
Where a non-resident company is liable to register for VAT purposes, a VAT representative must be appointed.

The VAT representative, who is a natural person, has to be a resident of South Africa and will be responsible for the duties and obligations, as imposed by the VAT Act, on the company.

Returns

How frequently are VAT returns submitted?

Generally, returns are submitted on a two-monthly period. However, where the value of taxable supplies for a 12-month period exceeds, or is likely to exceed ZAR 30 million, a vendor must account for VAT on a monthly basis.

Are there any other returns that need to be submitted?

Yes, in the case of imported services a non-vendor needs to submit a VAT215 form – Declaration in respect of imported services. Imported services relate to services provided by a non-resident to a South African resident, to the extent that the services are used for non-taxable purposes.

Vendors must declare the VAT in respect of imported services on the VAT 201 returns.

If a business receives a purchase invoice in foreign currency, which exchange rate should be used for VAT reporting purposes? (e.g. central bank’s exchange rate applicable on the date of the invoice)

A tax invoice must be issued in South African currency to
allow a vendor to claim input tax.

**International Supplies of Goods and Services**

How are exports of goods and services treated?

**Goods**

Where goods are exported to a customer (business or private) outside of South Africa, VAT is chargeable at the zero rate, provided the supplier pays for the freight and retains the prescribed documentary proof of export.

**Services**

If you supply services to a customer (business or private) who is not a resident of South Africa, then you can zero rate your supply, provided the service is not directly in connection with land (or any improvement thereto) or movable goods situated in South Africa, or supplied directly to a person who is in South Africa at the time the services are rendered.

Furthermore, where a service is physically rendered outside of South Africa, the supply is subject to VAT at the zero rate.

How are goods dealt with on importation?

When goods are imported into South Africa, import VAT and customs duty may be due. This has to be paid or secured before the goods will be released from Customs’ control. VAT paid on importation by a vendor can be claimed as an input tax deduction in its VAT returns. It should be noted that special valuation rules apply for VAT purposes.
How are services which are brought in from abroad treated for VAT purposes?

If a business acquires certain services from outside South Africa, the services will be deemed to be imported services to the extent that the services are acquired for the purpose of making non-taxable supplies. This is intended to take away any VAT advantage of buying those services from outside South Africa.

Businesses are required to account for a notional amount of VAT on a special VAT return (VAT215) covering the period in which the payment was made. This VAT cannot be recovered as input tax.

VAT recovery

Can a business recover VAT if it is not registered?

Only if it has acquired goods in South Africa and it proceeds to export the goods itself. This scheme is mainly aimed at tourists, but is not restricted to them. Tourists would, in certain instances, be entitled to recover VAT paid through the VAT Refund Administrator (the VRA).

Does your country apply reciprocity rules for reclaims submitted by non-established businesses?

No, VAT can, in certain instances, be recovered through the VRA, irrespective of foreign reciprocity.

Are there any items that businesses cannot recover VAT on?

In the case of the export of goods referred to above, there are limitations where the goods consist of second-hand goods.
In general, vendors cannot recover VAT (input tax) in respect of the acquisition of goods and services for the purpose of entertainment, fees or subscriptions paid by the vendor in respect of memberships of any club, association or society of a sporting, social or recreational nature and the acquisition or rental of motor cars.

**Invoices**

Is a business required to issue tax invoices?

Yes, generally if it is a registered vendor making taxable supplies it is required to issue a tax invoice.

What do businesses have to show on a tax invoice?

A tax invoice should contain the following data:

- the words tax invoice in a prominent place
- the name, address, and VAT registration number of the supplier
- the name, address, and VAT registration number of the recipient
- an individual serialized number and the date
- full and proper description of the goods or services supplied
- the quantity or volume of the goods or services supplied
- the value of the supply, the tax charged and the consideration for the supply. If only the consideration is shown, either the amount of tax charged, or a statement that it includes VAT and the rate.

Can businesses issue invoices electronically?
Yes, but SARS requires specific requirements to be met.

Is it possible to operate self-billing?

Yes, in limited circumstances.

Can a business issue VAT invoices denominated in a foreign currency?

Yes, but only if it relates to zero rated supplies, e.g. export of goods.

Transfers of Business

Is there a relief from VAT for the sale of a business as a going concern?

Provided that all the necessary documentary evidence is retained, the supply of an enterprise, or part thereof which is capable of separate operation, may be subject to VAT at the zero rate.

Options to Tax

Are there any options to tax transactions?

No.

Head Office and Branch transactions

How are transactions between head office and branch treated?
If the entity has one VAT registration number, these transactions are ignored.

If the head office and branch have separate VAT registration numbers, the supplies could be subject to VAT.

In a situation where the head office is outside of South Africa, supplies are deemed to be made from the branch in South Africa to its head office. Such supplies, could, however be subject to VAT at the zero rate or standard rate.

**Bad Debt**

Are businesses able to claim relief for bad debts?

Businesses are able to claim VAT previously paid back on the unpaid element through your VAT return. If you subsequently receive payment for the supply then you will have to pay back the VAT element to the tax authorities in the same way.

**Anti-Avoidance**

Is there a general anti-avoidance provision under VAT law?

Yes. Where SARS determines that a person has entered into a scheme for obtaining undue tax benefits, they may determine the liability for VAT as if the scheme had not been entered into.

**Penalty Regime**

What is the penalty and interest regime like?
In respect of the late payment of VAT, a 10 percent penalty and interest at a prescribed rate is levied. The taxpayer may, however, request that penalties be waived under certain circumstances. In the cases of the evasion of VAT and obtaining an undue refund, a maximum of 200 percent additional tax may be levied, based (from 2012) on a categorized penalty percentage table. Mitigation of penalties is also linked to voluntary disclosures provisions.

Tax Authorities

Tax audits

How often do tax audits take place?

Frequency varies considerably according to the nature and value of supplies etc.

Are there audits done electronically in your country (e-audit)? If so, what system is in use?

Notices and requests are sent electronically but the audits are conducted by staff members of SARS.

Advance rulings and decisions from the tax authority

Is it possible to apply for formal or informal advance rulings from the (indirect) tax authority?

Yes, the South African Revenue Service may issue formal (written) advance rulings, i.e. binding general, class or private rulings.

Are rulings and decisions issued by the tax authorities publicly available in your country?
Yes, they are published on the tax authorities’ website.

**Miscellaneous**

In your country, are there unique specific indirect tax rules (regimes) that differ from standard indirect tax rules in other jurisdictions?

No

Are there indirect tax incentives available in your country (e.g. reduced rates, tax holidays)?

No