

**BINDING GENERAL RULING (VAT): NO. 16 (Issue 2)**

DATE: 30 March 2015

**ACT : VALUE-ADDED TAX ACT, NO. 89 OF 1991**  
**SECTION : SECTION 17(1) – APPORTIONMENT**  
**SUBJECT : STANDARD APPORTIONMENT METHOD**

***Preamble***

For the purposes of this ruling –

- “**BGR**” means a binding general ruling issued under section 89 of the Tax Administration Act No. 28 of 2011;
- “**section**” means a section of the VAT Act unless otherwise stated;
- “**VAT**” means value-added tax;
- “**VAT Act**” means the Value-Added Tax Act No. 89 of 1991; and
- any other word or expression bears the meaning ascribed to it in the VAT Act.

**1. Purpose**

This BGR prescribes the method to be used in determining the ratio contemplated in section 17(1).

**2. Background**

Section 17(1) provides that the extent to which a vendor may deduct tax payable on goods or services acquired partly for the purpose of making taxable supplies and partly for some other purpose (for example, exempt supplies or private use) is determined by means of a ratio determined by the Commissioner in terms of a ruling contemplated in Chapter 7 of the Tax Administration Act, 2011 (that is, a binding general ruling) or section 41B (that is, a VAT class ruling or a VAT ruling).

**3. Ruling**

The formula set out below in respect of the turnover-based method of apportionment constitutes a BGR under section 89 of the Tax Administration Act.

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

**Where:**

- “y” = the apportionment ratio/percentage;
- “a” = the value of all taxable supplies (including deemed taxable supplies) made during the period;
- “b” = the value of all exempt supplies made during the period; and

“c” = the sum of any other amounts not included in “a” or “b” in the formula, which were received or which accrued during the period (whether in respect of a supply or not).

**Notes:**

1. The term “value” excludes any VAT component.
2. “c” in the formula will typically include items such as dividends and statutory fines (if any).
3. Exclude from the calculation the value of any capital goods or services supplied, unless supplied under a rental agreement/operating lease (that is, not a financial lease or instalment credit agreement).<sup>1</sup>
4. Exclude from the calculation the value of any goods or services supplied where input tax on those goods or services was specifically denied.
5. The apportionment percentage should be rounded off to two decimal places.
6. Where the formula yields an apportionment ratio/percentage of 95% or more, the full amount of VAT incurred on mixed expenses may be deducted (referred to as the *de minimis* rule).

**Conditions:**

The aforementioned method is subject to the following conditions:

1. The vendor may only use this method if it is fair and reasonable. Where the method is not fair and reasonable or inappropriate, the vendor must apply to SARS to use an alternative method.
2. Vendors using their previous year’s turnover to determine the current year’s apportionment ratio are required to make an adjustment (that is, the difference in the ratio when applying the current and previous years’ turnover) within six months after the end of the financial year.

**4. Period for which this ruling is valid**

This BGR applies with effect from 1 April 2015 and will apply until it is withdrawn or the relevant legislation is amended.

**Group Executive: Interpretation and Rulings**  
**Legal and Policy Division**  
**SOUTH AFRICAN REVENUE SERVICE**

Date of 1st issue : 25 March 2013

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<sup>1</sup> This exclusion only applies to a vendor that does not usually supply capital items on a regular basis as a normal part of the business, unless such items are supplied under an instalment credit agreement.