

NAVIGATING VAT

Your Guide to
Understanding
South African VAT



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INTRODUCTION

If you are a business owner in South Africa or are involved in international trade, you will need to understand and navigate the world of value-added tax (VAT). From understanding how VAT works in local transactions to calculating import duties and VAT or managing VAT on exported goods, it can be challenging to stay on top of it all. That's why we've created this ebook – to provide you with a comprehensive guide to VAT with a special focus on international trade.

In Chapter 1, we will cover the basics of how VAT works, including the definition of VAT and how businesses become VAT vendors. This chapter will provide a solid foundation for understanding the basic concepts of VAT.

Chapter 2 delves into the topic of export VAT, specifically direct versus indirect exports. We will provide a breakdown of the most important things you need to know about export VAT to help make the process smoother for you.

In Chapter 3, we will focus on calculating import duties and VAT. We will discuss the significant impact that import duties and VAT can have on the final price of your imports and provide you with a step-by-step guide on how to calculate it.

Lastly, in Chapter 4, we will cover the intricacies of managing VAT on imported goods. We will discuss when and how to use VAT exemptions, VAT refunds, and claiming back input tax. By the end of this chapter, you will have a clear understanding of how to manage VAT on your imported goods.

Whether you are new to trading internationally or are an experienced trader, this ebook will provide you with valuable insights into navigating VAT. So, let's dive in!

CHAPTER 1.

HOW DOES VAT WORK?

As defined by SARS, Value-Added Tax (commonly known as VAT) is an indirect tax on the consumption of goods and services in the economy. Revenue is raised for the government by requiring certain businesses to register and charge VAT on the taxable supply of goods and services. These businesses become VAT vendors and act as agents for the government in collecting the VAT.

Here's what local entities and international traders need to know about VAT registration, compliance, and claims:



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Value-Added Tax
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HOW VAT WORKS

All prices charged, advertised, or quoted by a VAT vendor must include VAT at the applicable rate. Doing so ensures VAT is charged at each stage of the production and distribution process and is proportional to the price charged for the goods and services.

Currently, the standard rate applicable to most transactions is 15%.

Transactions are recorded and paid based on the supplier issuing a tax invoice, making this the most important document for keeping accurate VAT records. Failure to issue SARS compliant tax invoices, if you are a registered vendor, is considered an offence.

Download our SARS-compliant Excel tax invoice template [here](#).

The South African VAT system is based on a subtractive or credit input method. This requires the vendor to deduct the VAT incurred on company expenses (input tax) and other permissible deductions from the tax collected on sales (output tax).

VAT ON PURCHASES MADE BY A VAT VENDOR ONLY QUALIFIES AS INPUT VAT UNDER THE FOLLOWING CIRCUMSTANCES:

- The goods or services supplied were wholly or partly required to supply or manufacture a taxable service or commodity. This includes raw materials, water, electricity, telephone charges, marketing expenses, administrative expenses (including office consumables and furniture), vehicles, commercial rent, machinery, and specialist consultation fees.
 - VAT was charged on the goods or services supplied at the standard rate.
 - The vendor can produce the appropriate documentation. I.e. A tax invoice for local purchases, or a bill of entry and customs receipt number for imports.
-

The vendor reports to SARS at the end of every tax period by means of completing a VAT201 declaration. In this declaration, the input tax incurred, and other applicable deductions, are offset against the output tax collected for a specific tax period. If the vendor has collected more output tax than it has paid input tax, a net liability is payable to SARS. If the vendor has paid more VAT than it has collected, a net refund may be claimed from SARS.

The period for which a VAT return must be filed depends on the tax period allocated by SARS. This can be one, two, six, or twelve calendar months ending on the last day of the month.

At the time of VAT registration vendors are approved for declaring VAT on an invoice basis, or on a payment basis. For invoice-based returns calculations are based on invoiced output tax offset against invoiced input tax. For payment-based returns input and output, taxes are only factored into calculations if the funds have been paid or received.

Download the SARS Guide for Completing a VAT Declaration [here](#), and a handy guide to the VAT201 form [here](#).

WHO MUST REGISTER AS A VAT VENDOR?

Any enterprise that provides a taxable product or service for commercial purposes exceeding a value of R1 million in 12 consecutive months must register as a VAT vendor. This is also the case if a written contractual obligation (sales contract) puts the enterprise's projected income over the R1 million threshold within this period.

Note: The R1 million compulsory VAT registration threshold applies to the total value of taxable trade (turnover) and not the net income (profit) that the company makes within the 12-month period.

On average, a turnover of R1 Million over a 12-month period equates to invoicing R83,330 per month.

[Register for VAT](#)

WHO MAY REGISTER AS A VAT VENDOR?

An entity may voluntarily register for VAT even if its turnover is less than R1 million over a 12-month period, providing it meets any of the following conditions.



It is a commercial enterprise that made a turnover above the minimum threshold of R50 000 in the past 12 months or can be expected to do so within 12 months of the registration date.



It supplies commercial accommodation and made a turnover above the minimum threshold of R120 000 in the past 12 months.



It intends to carry on an enterprise acquired as a going concern, provided that the turnover of the going concern exceeded R50 000 in the past 12 months.



It is a “municipality” or is carrying on the activities of a “welfare organization”, a “share block company” or “FDFP (Foreign donor-funded project)”.

WHO SHOULD NOT REGISTER AS A VAT VENDOR?

Besides entities that generate less than R50 000 in 12 months, and are therefore not allowed to register, companies who should steer clear of VAT registration until they reach the mandatory threshold are:

- Enterprises with an annual turnover of less than R1 Million for whom VAT payments will diminish profits.
- Enterprises with very few taxable expenses on which input tax can be deducted. For example, companies whose main expenses are salaries and wages.
- Enterprises that provide a product or service predominantly for final consumers who are not registered for VAT.

CALCULATING TURNOVER

As the deciding factor in determining whether or not your business should be registered for VAT is its turnover, it is important to understand that not all income counts as turnover.

Sources of income that count towards turnover are:

- Goods sold in South Africa.
- Services rendered in South Africa.
- Sales of goods exported to an export country.
- Services rendered outside the RSA.
- Income from all branches or divisions of the company that fall within South Africa.
- Deemed supplies.

Sources of income that do not count towards turnover are:

- Sales from stock or capital assets when closing your business or substantially reducing (permanently) the scale of your business.
 - Sales from the old plant, machinery, or other capital assets when replacing them with new ones.
 - Sales of any VAT-exempt sales.
 - Donations are received by associations, not for gain.
 - VAT is paid on invoices issued to clients.
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THE ADVANTAGES OF VAT REGISTRATION

- It motivates good administration. Vendors are required to submit their returns by the due date of each applicable period, even if there is no payment required for the tax period concerned. Maintaining compliance with a regular deadline is a great way of ensuring your filing and bookkeeping are kept shipshape and up to date.
- Clients and suppliers see your company as a legitimate enterprise. Displaying your VAT number on letterheads and marketing can create the impression that you are a larger enterprise. Not having a VAT registration number, on the other hand, makes it obvious that your turnover is less than R1 Million per year.
- You may claim VAT spent on machinery and other capital-related purchases back from SARS, making the outlay less of a financial burden.
- You may claim VAT on production costs, raw materials, stock, and services rendered to your company back from SARS. With a lower input cost, you can be more competitive in the open market.
- Your VAT-registered clients may also benefit from redeeming the VAT on goods and services you offer them.

THE DISADVANTAGES OF VAT REGISTRATION

- It is a significant responsibility. Vendors are held accountable for levying VAT and paying it over to the State after deducting only permissible input tax. Failure to comply or filing inaccurate returns incurs penalties and interest.
- Vendors must file for all VAT invoiced within the tax period if they are registered to pay on an invoice basis. This includes invoices where payment has not yet been received from the recipient. Paying VAT on an invoice basis can be frustrating when you have large orders at the time of filing and your clients don't pay up. It is also an important factor to consider when negotiating extended payment terms.
- You may be less competitive. Entities who are not VAT registered may opt to do business with a non-registered competitor as, from their perspective, the VAT charged on your product or service is a non-refundable expense. This is only a major concern if your targeted clients are start-ups and micro enterprises that likely fall under the R1 Million threshold.

ZERO-RATED GOODS

Zero-rated goods are taxable commodities on which VAT is levied at a rate of 0%. Vendors who manufacture and trade in zero-rated goods are still able to deduct input tax in full on the goods or services acquired in the making of their products.

Certain basic foodstuffs are zero-rated including:

- Brown bread
- Brown bread flour (excluding wheaten bran)
- Eggs (from chickens only)
- Dried beans
- Lentils
- Dried mealies and mealie rice
- Samp
- Maize meal
- Canned Pilchards
- Milk, cultured milk, milk powder, and dairy powder blend
- Fresh vegetables and fruit (including some special circumstances of frozen products)
- Rice
- Vegetable cooking oil (excluding olive oil)
- Edible legumes and pulses of leguminous plants (peas, beans, peanuts etc.)

In addition, a 0% VAT rate is applied to:

- Crude oil and certain petrol and diesel-based products (including biodiesel).
- Appropriately “marked” illuminating kerosene (paraffin) intended for use as fuel or for heating.
- The supply of services directly in connection with goods that are temporarily imported into South Africa for processing, repair, cleaning, or reconditioning. This includes goods which are consumed or permanently affixed to the import for the sake of the services being rendered.
- The international transport of goods or passengers.
- Any service supplied directly in connection with land situated outside of South Africa. For example, where a South African resident contracts with a South African vendor to build a house situated in Botswana.
- The supply of services physically rendered or performed outside of South Africa, or to a customs-controlled area enterprise (like a duty-free shop) or a special economic zone operator in a customs-controlled area.
- Municipal property rates.

Zero-rating does not apply where:

- Goods are prepared as a meal or for immediate consumption.
 - A standard rate product or ingredient is blended with a zero-rated product or ingredient.
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VAT EXEMPT GOODS

In some cases, goods and services are completely exempt from incurring VAT. An entity may not register for VAT if it only produces exempt goods. If the entity is VAT registered, it may not deduct any VAT charged on goods or services acquired to make exempt supplies or for private use or other non-taxable purposes.

- Some examples of exempt goods and services are:
- Financial services (such as the provision of credit, life insurance, medical aid, provident, pension and retirement annuity funds, as well as any dealing in cryptocurrency).
- Donated goods or services sold by non-profit bodies.
- Residential accommodation in a dwelling (but not commercial holiday accommodation).
- Passenger transport within South Africa by taxi, bus or train (this excludes game drives, the transport of goods that are not a passenger's luggage, car rental, and transport provided by an employer).
- Educational services provided by recognised educational institutions.
- Childcare services provided at crèches and after-school care centres.
- Services provided to members of body corporates, share block companies, retired persons, political parties, trade unions, housing schemes and home-owners associations which are supplied out of levy contributions by such members.



VAT EXEMPT GOODS

Imports

VAT levied on imported goods may be deducted as input tax provided the goods have been released by customs.

The documents required to prove this include:

- An EDI Customs Status 1 Release Message.
- A valid bill of entry (SAD 500).
- The receipt number for the payment of the relevant tax. This is usually issued on e-filing.

If a freight agent handled clearing on the importer's behalf a statement listing the nature of the goods, the quantity or volume imported, the FOB value, the VAT paid on the import, and the relevant receipt number is adequate.

Import VAT is charged at the applicable rate (standard or zero-rate) that would apply to local purchases. It is however applied to the ATV (added tax value) of the goods. The ATV is calculated by adding a 10% upliftment to the FOB customs value and import duties applicable to the shipment.

More information on calculating import VAT can be found in [this article](#).

Under certain circumstances, imports may qualify for a rebate (non-payment) of import VAT.

Examples where rebates are applicable include:

- Goods imported by immigrants, tourists, returning residents and other passengers for personal use.
- Goods temporarily admitted for processing, repair, cleaning or reconditioning.
- Imports of raw materials for the manufacture of goods exclusively intended for export.



Exports

Traders who are also VAT vendors may zero-rate exports. To do so the transaction must be a direct export, meaning the South African trader (exporter) arranges carriage. It can also be an indirect export, meaning the buyer is a foreign entity that will manage the carriage, but indirect exports pose a risk as the South African trader is held liable for proving that the goods were correctly exported.

Alternatively, indirect exports can be done at the standard rate. This requires that the foreign entity pays the VAT to the trader and may claim it back from SARS at the time of leaving South Africa.

Interested in registering as a VAT vendor? Take the hassle out of registration by letting our experienced consultants handle your application. Simply [click here](#) to get started.



For more in-depth information on VAT registration, compliance, returns and regulations we recommend consulting:

- The SARS [VAT 404 Guide for Vendors](#)
- The [South African VAT Act](#)
- The University of Pretoria's [Guide to Regulations and Notices](#)
- [Amendments to the VAT Act](#)

[Register for VAT](#)

CHAPTER 2.

EXPORT VAT: DIRECT VS INDIRECT EXPORTS

You've got the goods, you've got the buyer, and you're ready to export...right after you've sorted out your export VAT of course.

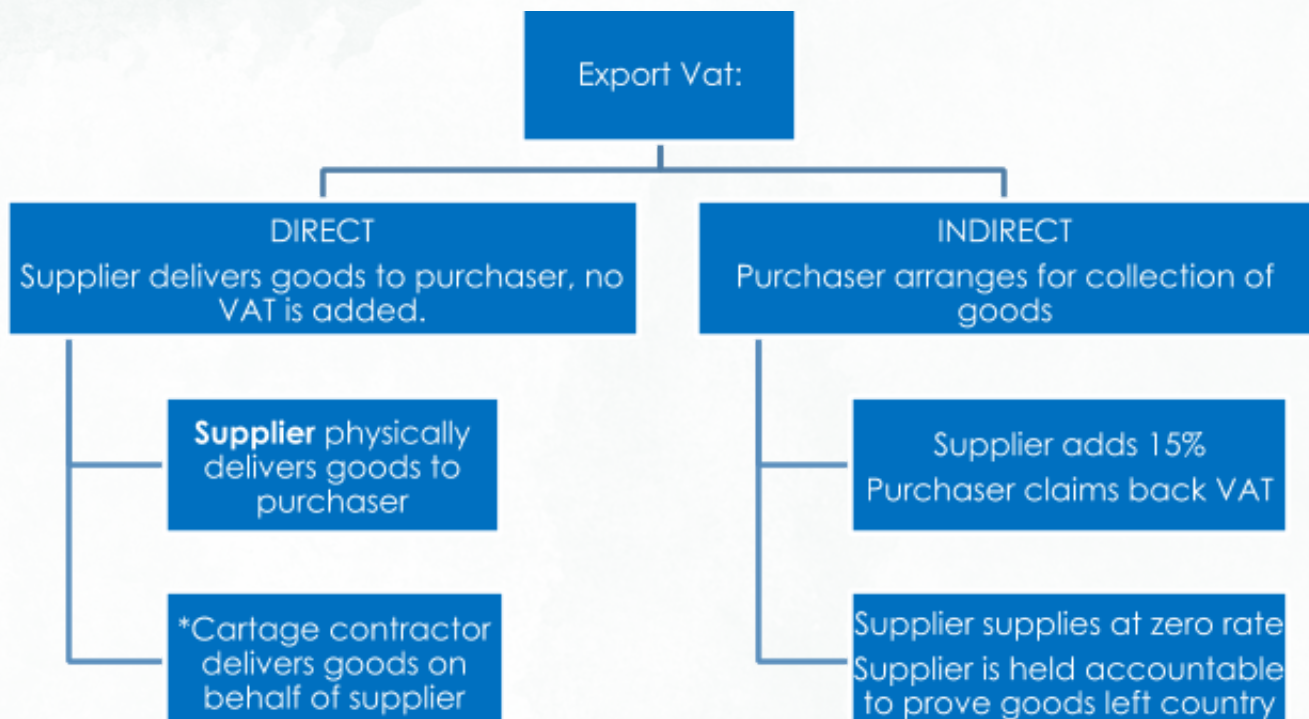
This quick guide will give you a breakdown of the most important things you need to know about exporting VAT.

EXPORT VAT: DIRECT VS INDIRECT EXPORTS

Before we dive into the difference between direct and indirect exports, it is important to define a few terms:

- The supplier: The party offering the goods for sale to be exported;
- The purchaser: The party buying the goods from the supplier.

When exporting goods from the Republic of South Africa (RSA) to any export country, a distinction must be made between direct and indirect exports. Figure 1 depicts a comparison of these two types.

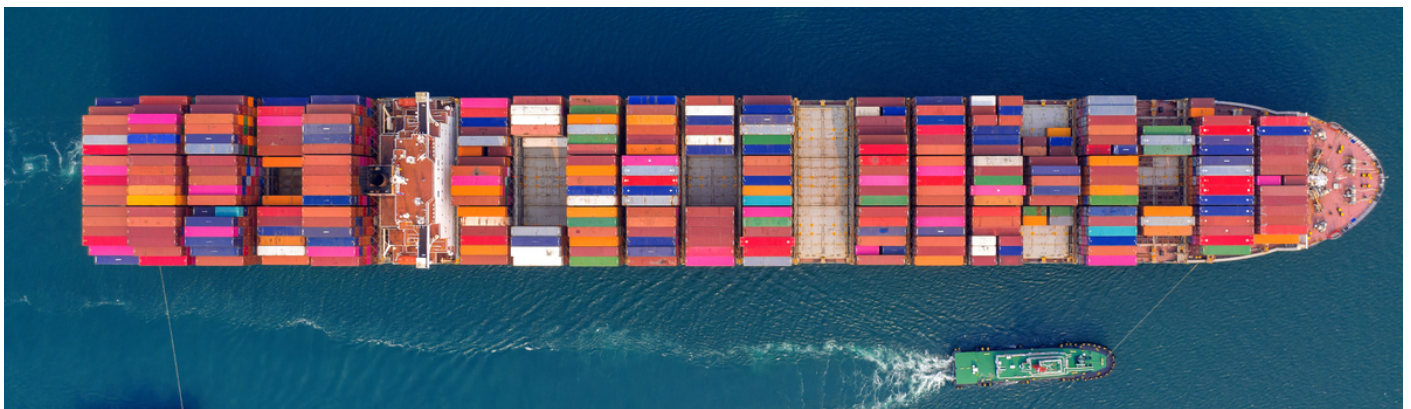


Direct exports:

Direct exports occur when a supplier delivers the goods to a client at an address in an export country. The supplier will be in total control of the export and is responsible for all aspects of the exportation.

The documents required to prove this include:

- An EDI Customs Status 1 Release Message.
- A valid bill of entry (SAD 500).
- The receipt number for the payment of the relevant tax. This is usually issued on e-filing.



Indirect exports:

Indirect exports occur when the buyer collects or arranges for the collection and transportation of the goods. In this case, the supplier must add the 15% standard VAT rate to the final price of the goods. The buyer may then claim a refund from the VAT refund administrator.

The supplier can also choose to supply the goods to the purchaser at a zero rate. This can be done when the supplier can prove that the goods were transported to a harbour or airport classified as a “designated commercial port” and were exported to the buyer.

The supplier will be held accountable if the conditions of the export are not met, therefore it is up to the supplier to decide whether to apply the standard VAT rate (15%) or zero rates.

Whether you choose to charge the standard 15% VAT rate on your products or select the zero-rated option, it's important to decide and communicate this to the purchaser upfront. Knowing the preferred VAT arrangements in advance will help you to make informed decisions about whether to deliver your goods to the purchaser or to leave it to them to collect the goods. It will also help avoid any disputes, which will help facilitate a smooth relationship between you and the purchaser.

CHAPTER 3.

CALCULATING IMPORT DUTIES & VAT

Did you know that import duties and VAT can make a significant difference to the final price of your imports? The price you see on your supplier invoice is seldom the price you end up paying for the landed goods after you receive your Custom's bill.

It is essential to know how to calculate import duties and VAT. Knowing the final cost upfront will help you determine whether your imports will be profitable and within your budgeted price range. The good news is that if you are a VAT-registered vendor, you may claim back VAT on your imports.



HOW TO CALCULATE IMPORT DUTIES

Customs can charge import duties in four ways, namely:

1. Free (no import duty or tax payable);
 2. Rated or specific;
 3. Ad valorem; or
 4. Compounded (combination of rated and ad valorem)
-

Table 1 provides an example of how each duty works.

TYPE OF DUTY	EXAMPLE
Rated or specific	"10 cents per square meter" or "3 cents per dozen"
Ad valorem (fixed percentages of the value)	"10% of the value" or "25% of the value"
Compound (combination of rated and ad valorem duties applicable to goods mentioned in the same tariff heading)	"20% + 8 cents per kg" or "50 cents per square meter less 20%"

In the customs tariff book (a document listing all traded items and their duties), each item is classified according to a tariff or HS code. Each tariff code is associated with a specific duty tax.

Note: The rate of duty you are liable to pay may differ depending on the country you are importing the goods from. If you are importing from an EU, EFTA, MERCOSUR or SADC country, different rates apply. Make sure that you look up the correct rate of duty.

Once you've looked up the duty tax rate, calculate the total duty tax liable as per the examples below. Add this duty tax to the purchase price of your goods to determine your total landed cost.

Rated or specific calculation:

Volume of goods = 1000m², Duty tax = 30c per M²
Total duty tax = 1000 x 30c = 30 000 cents or R300

Ad Valorem Calculation:

Cost of goods = R1000, Percentage duty tax = 25%
Total duty tax = R1000 x 25/100 = R250



HOW TO CALCULATE IMPORT VAT

Now that you have your import duty, you can calculate how much VAT you are liable to pay. The VAT must be paid before your goods are cleared at customs.

Calculate the VAT as follows:

Product price on the commercial invoice (e.g. R100)

+ 10% of commercial invoice (e.g. R10)

+ duty tax (e.g. if the duty tax percentage is 20% then R20 is added)

= Total (e.g. R130)

15% VAT is levied on the total amount.

You can perform the above calculation automatically on our free VAT and Import Duty Calculator.

AN IMPORTANT NOTE TO IMPORTERS TRADING WITH BLNS COUNTRIES:

On 1 February 2020, SARS implemented technical system enhancements. The system change relates to the calculation of VAT on goods imported for home use from Botswana, Lesotho, Namibia, and Eswatini (the BLNS countries), specifically the legal provisions of section 13(2) of the Value-Added Tax Act, of 1991 and rule 120A.02(a) of the Rules to the Customs and Excise Act 91 of 1964.

This section states that where the origin of such goods is from non-BLNS countries, the goods are subject to an upliftment of the VAT value by a factor of 10%, in the calculation of VAT payable at the time of clearance into the Republic of South Africa. In essence, this implies a markup of the customs value by 10%, upon which VAT of 15% is calculated.

This means no markup is applied on the importation of goods originating in BLNS countries and cleared for home consumption (i.e. for the South African market). Only VAT of 15% is calculated on the customs value. Importers, registered agents, and clearing agents are reminded of their obligation to comply with the above-mentioned legal provisions.

CHAPTER 4.

MANAGING VAT ON IMPORTED GOODS

When and how to use VAT exemptions, VAT refunds and claiming back input tax



When is import VAT due?

Value-added tax, similar to customs duty, is payable at the time of entry for home consumption. Therefore, VAT needs to be paid before Customs allows clearance of the goods into South Africa, unless the importation is VAT-exempt as discussed below.

Deducting import VAT as input tax

VAT paid on the importation of goods by a vendor may be deducted as input tax, subject to the following:

- VAT may only be deducted during the tax period when the goods are released.
- For purposes of deducting the VAT paid on the importation of goods, the vendor making the deduction must be in possession of the following documentation, to be provided by your clearing agent:
 1. An “EDI Customs Status 1 Release Message”
 2. A valid bill of entry or other document prescribed by the Customs and Excise Act (for example, form SAD 500 and any additional SAD document that might be required).
 - 3. The receipt number for the payment of such tax, that is, the receipt issued on eFiling.

Deferment of import VAT payment

Registered customs clients may apply to defer the payment of customs duty and VAT for a period of up to thirty days. Read more about how to use [deferment accounts here](#). Many clearing agents make use of deferment accounts. They can then charge their client's VAT and duty tax to their deferment account at the time of customs clearance, and receive payment from their clients during the 30-day period thereafter before payment needs to be made to SARS. If VAT payment has been deferred this way, importers may only claim the import VAT as input tax during the tax period in which the clearing agent actually pays the VAT over to SARS customs.

Delay payment of import VAT with the use of a bond store.

A bond store, also known as a [customs storage warehouse or OS store](#), is a customs-registered secured area for the storage of dutiable goods. Instead of paying VAT and import duty tax at the time a shipment lands in South Africa, imported goods can be transported to and stored in a bond store. The VAT and import duty tax are only liable to be paid when the goods are removed from the store, and only on the individual items that are removed. This is a good option for importers who import items with a high import tax outlay in bulk and want to gradually pay the tax as the items are used or sold. No VAT or duty tax is due on items exported directly from a bond store.

Bond stores need to comply with customs storage warehouse regulations, a customs official will do an [inspection](#) to verify compliance before registration. Customs officials have full access to this area and may monitor goods that enter and leave it at any time. Imported goods need to be transported to the bond store by a registered [remover of goods in bond or transporter](#).

Exemption of import VAT

Certain specific categories of imported goods are exempt from VAT. These exemptions are set forth in Schedule 1 of the VAT Act.

In order to qualify for an exemption, the goods must fall under one of the descriptions of the VAT exemption item, any requirements or limitations contained in that particular description must be complied with, and the notes of the item number must be complied with.



Some examples of Schedule 1 items that qualify for exemption:

- Goods imported into the Republic from or via Botswana, Lesotho, Namibia or Swaziland
- Goods of no commercial value
- Goods imported with an international carnet
- Goods not exceeding R500
- Goods temporarily exported from South Africa and thereafter returned to the exporter, and no change of ownership has taken place
- Goods for educational, religious or welfare purposes
- Travellers' cheques and bills of exchange, denominated in a foreign currency
- Motor vehicles imported by natural persons for own use, on change of permanent residence to South Africa
- Goods imported by immigrants, tourists, returning residents and other passengers, for their personal use
- Goods temporarily imported for processing and export
- For a complete list, refer to Schedule 1 of the VAT Act

Refund of import VAT

SARS will refund the VAT paid on goods imported into South Africa by means of a General Application for Refund (CRI) in the following instances:

- The importer is a non-registered VAT vendor.
- Duplicate clearance, that is, more than one import declaration has been processed in respect of the importation of the same goods.
- The clearing agent has invoiced and processed the import documentation in the incorrect importer's name (does not include a clearing agent who has invoiced and processed the import documentation incorrectly in the name of the correct importer).
- Substitution, that is, the goods have been cleared under the incorrect customs procedure code (CPC) resulting in the original import declaration being substituted by a new import declaration reflecting the correct CPC and VAT is paid a second time.

In all other instances, if the registered vendor overpaid VAT on a bill entry, the total VAT paid may be claimed as input tax, subject to meeting all the requirements for making such a deduction (VAT 201). Import VAT refunds may be claimed up to five years after the tax period when the import VAT was paid.