



## Value-Added Tax Closing the compliance gap

There has recently been renewed focus by the South African Revenue Service (SARS) on value-added tax (VAT) in an effort to close the tax revenue gap. It is important to ensure that transactions are treated correctly from a VAT perspective to avoid unnecessary disputes and potential assessments for VAT, penalties and interest.

We highlight below some key SARS focus areas as well as other topical areas in the insurance industry. We have also included a recent development regarding the voluntary disclosure process and the requirement that the disclosure is indeed voluntary.

### No-claim bonuses

IFRS 17, the newest IFRS standard for insurance contracts, will replace IFRS 4 from 1 January 2022. In summary, IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and will require an insurer to reflect no-claim bonus payments as a separate cost in the financial statements.

From a VAT perspective, the VAT treatment of a no-claim bonus depends on the characteristics of the underlying supply or the event that give rise to the payment.

The VAT treatment of a non-claim bonus could take the form of a retrospective discount (credit note event) with the resultant input tax adjustment or a reduction in

future premiums where VAT will be accounted for at a reduced amount. As IFRS 17 requires disclosure of the no-claim bonuses separately as a cost, it misaligns the accounting and VAT treatment. It is therefore important that the contract is clear in terms of how the cash back/no-claim bonus will be effected.

## Management of superannuation schemes

Long-term insurers would generally not levy VAT on the insurance premium payable by the insured. Currently, long-term insurers must account for VAT on the management of a superannuation scheme either on the consideration embedded in the insurance premium or the cost of making such supply, whichever is greater (section 10(22A)). However, Binding General Ruling 34 (Issue 2) (BGR 34) allows the insurer, who does not charge a specific consideration for the management service, to use the cost of making the supply to determine the value of the consideration on which VAT must be accounted. BGR 34 also provides the method for calculating such cost.

In terms of a proposed amendment, section 10(22A) will be deleted which means that BGR 34 will no longer be applicable. This will have the effect that, where there is no fee embedded in the premium charged by the long-term insurer, a portion of the premium will be subject to 15% VAT to the extent that it is attributable to the management service. Should a long-term insurer wish to embed a fee in the premium charged, such fee should be specified in the insurance contract. Where the fee is not specified, section 10(22) requires a vendor to attribute that portion of the consideration received (being a consolidated charge for more than one supply) to the making of taxable supplies as is properly attributable to it.

The deletion of section 10(22A) means that if there is a fee/commission embedded in the premium, the long-term insurer needs to make a reasonable apportionment of what part is subject to VAT and what part is exempt from VAT, now with reference to section 10(22) of the VAT Act (with effect from 1 April 2021). In view of the proposed amendment, long-term insurers should review their contracts and consider the manner in which the reasonable apportionment can be made.

## Apportionment method

The stated policy of SARS is not to make VAT apportionment rulings effective retrospectively to prior financial years. As a result, a vendor must apply in the current financial year should it wish to apply an alternative apportionment method.

During 2019, the Tax Court considered an application for a retrospective apportionment ruling<sup>1</sup> (VAT Case 2063). The taxpayer apportioned the VAT on its expenses but did not have prior written approval for the apportionment method it applied. The taxpayer applied in its 2017 financial year to SARS for approval to apply an appropriate apportionment method retrospectively to 1 February 2014. SARS issued a binding private ruling to the taxpayer in which it approved the application of a transaction count-based method. The ruling was made effective from 1 March 2016, being the commencement of the financial year in which the taxpayer applied for the ruling and not 1 February 2014 as per the vendor's request.

---

<sup>1</sup> Taxpayer v Commissioner for the South African Revenue Service (VAT2063) [2019] ZATC 2 (15 November 2019)

The Tax Court found in favour of SARS on the basis that the standard turnover-based method as set out in Binding General Ruling 16 was the only ratio applicable to the taxpayer. Proviso (iii) to section 17(1) of the VAT Act expressly precluded SARS from issuing a ruling that had effect prior to 1 March 2016.

This judgement is, however, being taken on appeal on the basis that there is an alternative interpretation of proviso (iii), that is, if read with sub-paragraph (aa), a ruling may not be applied for retrospectively beyond the start of that particular financial year, only in instances where the vendor already had an approved method.

As the standard turnover-based method is rarely representative of the extent to which a vendor utilises its expenses in order to make taxable supplies, the failure to apply for a ruling application may result in a vendor having to apply an inappropriate apportionment method which is contrary to the principles for claiming input tax.

### Voluntary disclosures

In order for a voluntary disclosure application to be valid, the disclosure must be “voluntary”. In the *Purveyors South Africa Mine Services (Pty) Ltd v CSARS*<sup>2</sup> (Purveyors case), the High Court found that an application cannot be “voluntary” if SARS has prior knowledge of the default. In this specific instance, Purveyors queried its liability to pay customs VAT with SARS via email and telephonic discussions, during which SARS confirmed that Purveyors is required to pay customs VAT and that the default is subject to penalties and interest. Although it is unclear at this stage whether the High Court judgement will be appealed, prior interactions with SARS (e.g. ruling application) must be carefully considered as these could negatively impact a later request for relief under the Voluntary Disclosure Programme.

### Contact us:

#### Severus Smuts

Indirect Tax Leader  
Deloitte Africa Tax & Legal  
Email: [ssmuts@deloitte.co.za](mailto:ssmuts@deloitte.co.za)

---

<sup>2</sup> (61689/2019) [2020] ZAGPPHC 409 (25 August 2020)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organization”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at [www.deloitte.com](http://www.deloitte.com).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2020. For information, contact Deloitte Touche Tohmatsu Limited.