
INDEPENDENT REGULATORY BOARD FOR AUDITORS

INFORMATION FROM SARS

Johannesburg / 14 December 2021

Dear Tax Practitioner

Please be advised that in terms of the amendment to section 72 of the Value-added Tax Act 89 of 1991 (the VAT Act), which came into operation on 21 July 2019, Binding General Ruling No. 12 (Issue 3) dated 16 March 2020 (BGR 12) will cease to apply on 1 January 2022.

BGR 12 contains a decision made under section 72 of the VAT Act, which expires on 31 December 2021 (the Decision). The Decision allows motor dealers to deduct notional input tax on the full consideration (including any over-allowance amount) paid or credited to the supplier of a second-hand vehicle traded-in under a non-taxable supply. The deduction may be made under section 16(3)(a)(ii)(aa) or 16(3)(b)(i) read with paragraph (b) of the definition of "input tax" as defined in section 1(1) of the VAT Act, subject to the limitations contained in BGR 12.

With effect from 1 January 2022, motor dealers may not include any amount of over-allowance paid or credited to the supplier of the second-hand vehicle traded-in under a non-taxable supply in the calculation of notional input tax. This is on the basis that paragraph (b) of the definition of "input tax" in section 1(1) of the VAT Act, limits the amount of notional input tax to the lesser of the tax fraction of the consideration paid by the vendor for the second-hand goods or the open market value of the goods.

The open market value of the traded-in vehicle is determined at the time the parties agree on the value of that vehicle. To the extent that the actual amount paid is subsequently adjusted for the over-allowance, the over allowance is an amount paid in excess of the open market value of the traded-in vehicle. This is on the basis that the over-allowance is financial assistance provided by the motor dealer to the client in order to settle the outstanding debt on the traded-in vehicle in order to facilitate the purchase of another car from the motor dealer.

Having regard to the amended section 72 of the VAT Act, which came into operation on 21 July 2019, it would be contrary to paragraph (b) of the definition of "input tax" in section 1(1) of the VAT Act to continue allowing a deduction of input tax on any over-allowance, on or after 1 January 2022.

Kindly take note that above information comes directly from SARS and is shared by the IRBA in its capacity as a Recognised Controlling Body. For any enquiries, please contact SARS directly.

Rebecca Motsepe
Director: Legal

About the IRBA

The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.