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Value Added Tax (VAT) on Imported Services



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Value Added Tax (VAT) on Imported Services

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Policy curator ² :	Chief Director: Finance
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Validity:	The English version of this regulation is the operative version, and the Afrikaans version is the translation.

¹ Rules Owner: Head(s) of Responsibility Centre(s) in which the rules functions.

² Rules Curator: Administrative head of the division responsible for the implementation and maintenance of the rules

VAT on Imported Services

Policy number: 3.4

Scope: The policy provides the financial guidelines on the output VAT due and payable, as required by the Value-Added Tax Act, 1992, in respect of services acquired from non-residents based on the inverse of a cost center's VAT reclaim percentage.

Policy:

Imported services are defined as a supply of services by a supplier who is not a resident and carries on business outside of South Africa to a recipient who is a resident of South Africa (which includes Stellenbosch University) to the extent that such services are utilized or consumed otherwise than for the purposes of making taxable supplies.

The following principles are relevant:

Time and value

The services are deemed to take place at the earlier of the time that the invoice is issued by the supplier or payment is made and the value is typically the value of the consideration for the supply.

Inclusions

Output VAT on imported services is applicable to payments to foreign suppliers in the following circumstances:

- The supply is in respect of services acquired for educational services, being exempt supplies;
- The supply is in respect of services acquired for the following categories of research:
 - contract research with student involvement;
 - applied research;
 - basic research; and
- The supply is in respect of services for overhead cost centers which partially support taxable supplies, with the balance being for exempt or other non-taxable supplies.

Exclusions

Output VAT on imported services is not applicable on payments to foreign suppliers in the following circumstances:

- The supply is in respect of goods which are imported into South Africa;
- VAT is charged by the supplier. Under the electronic services provisions a number of foreign service providers are registered as VAT vendors in South Africa where they provide services, inter alia, in respect of access to electronic databases, software, etc.
- The supply is an educational service by an educational institution established in a foreign country and regulated by an educational authority in that country;
- The supply is in respect of services which are consumed offshore such as foreign travel and accommodation, rental of foreign examination venues etc;
- The payment is in respect of collaborative projects with foreign institutions where funding has been obtained from a third party funder (i.e. there is no supply by the foreign institutions and the University acts as payment agent);
- The refund of unused funds to a foreign funder; and
- The supply would have been zero-rated or exempt from VAT if supplied in South Africa by a local supplier.

RECLAIM PERCENTAGE OF A COST CENTER

All cost centers have a VAT reclaim percentage that varies between 0% and 100%. This percentage is calculated in the manner as set out in the VAT Class Ruling issued by the South African Revenue Service.

In respect of research, the type of research that is conducted in the cost center determines the VAT percentage:

Type of research	Cost center percentage
Basic	None
Applied	50%
Contract with student involvement	50%
Contract with no student involvement	100%

For overhead costs related to infrastructure, administration and operations, the percentage is limited to a maximum of 12.5%.

VAT ON IMPORTED SERVICE LIABILITY

The liability for VAT on imported services is calculated by applying the inverse of the VAT reclaim percentage for the cost center to which the payment to the foreign service provider has been posted and multiplying this by the applicable VAT rate of 15%. Where the VAT reclaim percentage is 0 then the imported services liability is 100%.

The VAT liability for the cost center is calculated at the same time as when the payment is posted to the cost center. An assumption is made that VAT will be applicable (based on the set criteria). Should an adjustment be necessary, the adjustment will be posted within 4 weeks after end of the month the payment was made.

Where a cost center owner is uncertain about whether a transaction will carry VAT on imported services, it is advisable to consult in advance with the Director: Financial Services.

Example nr 1:

A cost center with a VAT reclaim percentage of 12.5% pays a foreign service provider R200 during October of a year.

The VAT on imported services is calculated as follows:

$$\frac{(100-12.5)}{100} \times 200 \times 15\% = 26.25$$

An amount of R26.25 has to be included in the October VAT return as output VAT and paid to SARS as part of the normal process of submitting the return. The liability of R26.25 is posted to the cost center at the end of November of that year.

Example nr 2:

A research cost center with a VAT reclaim percentage of 50% pays a foreign service provider R500 during April of a year.

The VAT on imported services is calculated as follows:

$$\frac{(100-50)}{100} \times 500 \times 15\% = 37.50$$

An amount of R37.50 has to be included in the April VAT return as output VAT and paid to SARS as part of the normal process of submitting the return. The liability of R37.50 is posted to the cost center at the end of May of that year.

Contact division: Financial Services