

VAT Alert

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Extension of “proof of payment” period in respect of exports

If a vendor cannot produce a valid ruling issued by the South African Revenue Service (SARS), granting an extension to the 3-month period allowed within which proof of payment in respect of goods that have been exported at the zero-rate must be obtained, the likelihood of a VAT assessment is high.

Exports and the documentary evidence required to substantiate the zero-rating thereof for VAT purposes, remain an easy target for SARS auditors. One of the most simple tests they perform is whether a vendor received payment in respect of export sales within 3 months of issuing an invoice in respect of those exports. Even though it is a fairly standard procedure to obtain an extension of this time limit, many vendors still fall foul of these provisions as contained in VAT Interpretation Note No.30 (Direct Exports), paragraph 7 onwards, and the VAT Export Incentive Scheme (Indirect Exports), paragraphs 2.2 and 2.3.

To obtain an extension of the period for up to a maximum of 7 months, SARS must be provided with the following details in respect of each foreign purchaser:

- the name and address of the foreign purchaser;
- the country to which the goods are exported;
- the reasons for the extension (for example, extended credit terms granted to foreign purchasers);
- the type and average monthly value of the movable

goods supplied to each affected foreign purchaser;

- the specified time period of the extension;
- an undertaking to obtain all of the documentary proof; and
- in the case of an instalment credit agreement, a copy of the agreement.

Extensions of longer than 7 months in total are granted in certain cases, but only where written approval from either of the following is also obtained:

- A commercial bank, authorised as a dealer in foreign exchange by the SA Reserve Bank; or
- The South African Reserve Bank.

Typically, the rulings expire after two years. Therefore, to avoid a potential exposure of up to 14/114 of your export turnover plus penalties and interest, we strongly urge you to:

- obtain a ruling if your credit terms are in excess of 3 months or if proof of payment is not obtained within the stipulated 3 month period for any other reason; or
- if you already have a ruling, to ensure that it has not expired and to reapply if necessary.

Contact one of our VAT specialists if you require further information or any assistance with regard to submitting ruling applications.

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