



Dear VAT Vendor

## **CALCULATING THE TAX FRACTION CORRECTLY – ROUNDING-OFF TO THE 5TH DECIMAL**

SARS has received a number of enquiries regarding the correct use of the tax fraction when completing the VAT201 declaration.

The reason some confusion has arisen is that the introduction of an enhanced VAT system on 27 May 2011, as part of the modernisation of the VAT process, included a new automated process of using the tax fraction in accordance with Section 66 of the VAT Act.

This application differs very slightly from the previous practice by SARS and VAT vendors. The previous practice required vendors to manually populate the output tax liability on the VAT201 declaration using the tax fraction (14/114) rounded off to five decimal places - that is 0.12280. However, the manual process allowed for a tolerance level in the rounding-off process so as not to prejudice vendors.

Based on this tolerance level, very small rounding-off errors of the tax fraction were accepted.

The launch of the VAT modernisation programme included the requirement for fields 4, 4A and 11 of the VAT201 declaration to be calculated by SARS using the tax fraction (14/114) correctly rounded-off to five decimal places that is 0.12280 as per Section 66 of the VAT Act. This automated calculation is accurate and does not allow for rounding-off errors or tolerance levels. Consequently, you are required to divide the VAT charged by the tax fraction, correctly rounded-off to five decimal places, when calculating the amounts to be declared in fields 1, 1A and 10.

As such, if a vendor follows any other method this will result in a rounding-off error. The following example illustrates the point.

If you use your own method and capture Field 1 as R11, 567 then Field 4 will work out as R11,567 multiplied by 14/114 which is equal to R1420.5088 (rounded-off as R1,420.51).

However, if you use the correct tax fraction, the calculation will be R11,567 multiplied by 0.12280, which is equal to R1,420.4276 (rounded-off as R1,420.43).

You will note that there is an eight (8) cent difference between the two calculations.

It is important to use the tax fraction rounded-off to the 5th decimal in order for your calculations to be correct and accepted by SARS. Where a vendor has used the incorrect tax fraction to make the VAT calculation, an adjustment must be made to the vendor's records.

Where necessary you may need to make an adjustment to your accounting system to effect this change.

ISSUED ON BEHALF OF THE COMMISSIONER FOR THE SOUTH AFRICAN REVENUE SERVICE

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