

Imported services FAQ

Imported services – s13 of The VAT Act

Section 6 of the VAT Act states that VAT is charged on **imported services**.

To determine whether or the requirement above applies to a transaction the following thought process should be used:

Step 1: Is there any imported service

- Section 2 of the VAT act defines an imported service as a supply which meets the following requirements:
 - The supplier must be a non-resident;
 - Consumed by a resident-recipient; and
 - Consumed in the making of non-taxable supplies by the recipient.

Step 2: What type of supply i.e. zero rate, standard rated or exempt.

- Sect 13 par 5(b) states that there shall be no VAT where the imported service is a zero rated or exempt supply
- Therefore, if the imported service is an exempt or zero rated supply there shall be no VAT implications.

Example:

Chartered Accountants Academy (CAA) is an educational service provider, i.e. makes exempt supplies. During September 2016 CAA engaged the services of Ahmed – an Associate Professor at The University of Johannesburg and an expert on IAS 33 *Earnings per Share* – to present a lecture on IAS 33 to the CTA 2, and Full-time classes. In the same month, CAA hired Gupta and Associates of Cape Town – a law firm specialising in intellectual property law – to assist them in a lawsuit against a local educational institution that had taken CAA learning material without permission and presented it as their own.

Required

Would CAA be liable to charge output VAT on the two transactions?

Solution

Ahmed

Step 1: Is there an imported service

1. Ahmed is a **non-resident** supplier;
2. His service is being consumed by CAA, a **resident recipient**; and
3. The service is being consumed in the making of **non-taxable (exempt) supplies** (educational services).

- Thus, the supply by Ahmed meets the definition of an imported service.

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Step 2: What type of supply

- The service being provided by Ahmed is lecturing which is an exempt supply since it constitutes an educational service.
- Therefore even though there is an imported service CAA will not be liable to account for output VAT since the service received is exempt.

Gupta and Associates

Step 1: Is there an imported service

1. Gupta and Associates is a **non-resident supplier**;
 2. Their services are being consumed by CAA, a **resident recipient**; and
 3. The service is being consumed in the making of **non-taxable (exempt) supplies** (educational services).
- Thus, the supply by Gupta and Associates meets the definition meets the definition of an imported service.

Step 2: What type of supply

- CAA has received legal services from Gupta and Associates which are standard rated supplies.
- Therefore, CAA shall account for output VAT on the transaction at standard rate (15%).