

## REMOVAL OF VAT ON DISCRETIONARY GRANTS

Dear Stakeholder

In terms of the VAT act, no VAT should be charged on government grants (which in our case refers to learnership bursary, internship, skills programmes, ABET, etc. grants – grants linked to training).

**THE VAT handbook in SA has the following guidance:**

**5.36 Zero-rated services — SETA grants**

Services deemed to be supplied in terms of [s 8\(5\)](#) by a designated entity in respect of any payment made in terms of [s 10\(1\)\(f\)](#) of the Skills Development Act 97 of 1998 to that designated entity, are zero-rated ([s 11\(2\)\(u\)](#)).<sup>37</sup>

This means that SETA grants payable to designated entities qualify for the application of the zero rate. In other words, a designated entity is allowed to account for output tax at the zero rate where the payment is a training grant paid in terms of [s 10\(1\)\(f\)](#) of the Skills Development Act for the purpose of training employees of the designated entity.



Thus as from 1 April 2011 we are not allowed to accept invoices for skills development grants which adds VAT to the grant claim.

Thus, whether you are a VAT vendor or not, in future when a grant is claimed by means of an invoice, at the bottom where VAT is normally inserted you will insert "0" or "Nil". This applies to all existing and new projects. Therefore if you are busy with a current project and you have already claimed a tranche(s)

on (eg) a learnership plus VAT, your next claim will be without VAT. All future projects will naturally have no VAT.

The first reaction might be that "I will loose out as I must pay the input VAT but cannot claim output VAT from AgriSETA". This is not true – please study the following diagrams carefully and you will realize that this is in actual fact beneficial to the recipient of the grant (employer or provider).

**EXAMPLE: 18.1 Learnership**

Learnership fee:	R15 000	
VAT (14%)	<u>R 2 100</u>	✗
TOTAL DUE	R17 100	

Learnership fee:	R15 000	
VAT (0% rated)	<u>R 0</u>	✓
TOTAL DUE	R15 000	

**EXAMPLE: 18.2 Learnership**

Learnership fee:	R18 000	
Allowance	R 7 500	
VAT (14% on fees only)	<u>R 2 520</u>	✗
TOTAL DUE	R28 020	

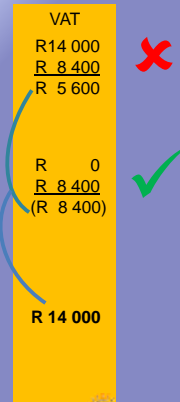
Learnership fee:	R18 000	
Allowance	R 7 500	
VAT (0% rated)	<u>R 0</u>	✓
TOTAL DUE	R25 500	



**WHAT DOES THIS MEAN FOR THE RECIPIENT?**

Value of grant	R100 000 + VAT =	R114 000
Input costs	R60 000 + VAT	R 68 400
Payable to SARS (output – input VAT)		

Value of grant	R100 000 + 0% VAT =	R100 000
Input costs	R60 000 + VAT	R 68 400
Payable to SARS (output – input VAT)		



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**R 14 000**



I assume that implementing this new system will not be without its frustrations (eg. AgriSETA returning invoices), but I believe that it will reduce administration and we will all soon get used to it. We are also learning as we go along.

Please note that this directive which we received supersedes any clauses referring to VAT in current contracts.

I trust that the above clarifies this matter. Should you have any further queries, please do not hesitate to contact the AgriSETA official you normally deal with or myself.

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**Operations Manager**