

### 30.13.4 CHANGE FROM FULL NON-VAT USE TO FULL OR PARTIAL VAT USE

*Section 18(4)* applies where goods or services held by a person commence to be used by that person or a partnership of which the person is a member, in a VAT enterprise or partly in a VAT enterprise. This is not an increase in use, because the asset was never used before in the enterprise.

The subsection deems the goods or services to be supplied in the tax period that the change in use takes place, and states that the vendor or the partnership may claim a section 16(3) input tax deduction, calculated as follows:

$$A \times B \times C \times D$$

A = the tax fraction (14/114)

B = the lesser of the adjusted cost (including VAT, but not including transfer duty) or the open market value of the goods or services at the time of the change in use (when the supply is deemed to take place – i.e. at the year end)

C = the percentage use of the goods or services in making taxable supplies (immediately after the supply is deemed to take place)

D = the percentage of payment actually made where the goods were acquired as second-hand goods (other than fixed property)

In other words, the vendor (person or partnership) can claim a VAT input based on the lower of the cost or market value of the asset, provided that the necessary documentation is available (such as tax invoices).

#### Example – Change in use from exempt to taxable

Mr B carries on an exempt business of letting residential property. One house, which cost R1 million plus R25 000 in transfer duty was suitable for an office, so when the tenant moved out, he decided to use the house as his office in his commercial business (in respect of which he was registered as a VAT vendor). At that time the house was worth R1,8 million.

Mr B can claim a VAT input of  $A \times B \times C \times D$

A = 14/114

B = the lesser of R1 000 000 or R1,8 million

C = percentage of use for making taxable supplies

(100% in this case as the whole house will be used as an office). Note that if the intended use is more than 95%, the intended use shall be deemed to be 100%.

D = the percentage payment made for second hand goods which are not fixed property (not applicable here)

$$14/114 \times 1\,000\,000 \times 100\% = \text{R}122\,807$$

The section 18(4) input is not limited to the transfer duty payable.

#### Notes

1. No input can be claimed if section 17(2) prohibits the input.
2. The vendor must have a tax invoice in order to claim an input (unless the goods are second-hand goods, in which case the information in section 20(8) is required).
3. 'B' is reduced by R100 000 where the person is bringing the goods or services into the enterprise after having been deregistered as a micro-business.
4. The input is claimed in respect of the period in which the deemed supply to the vendor (change in use) takes place.

### 30.13.5 PARTIAL CHANGE – NON-VAT TO VAT USE

*Section 18(5)* requires a VAT adjustment to be made (based on the lesser of cost or market value) where the use of a capital good or capital service in a VAT enterprise becomes a larger portion of its total use. No adjustment is made if the capital goods or services cost less than R40 000 (excluding VAT and transfer duty).

The subsection sets out the following formula:

$$\text{Deduction from output tax} = A \times B \times (C - D)$$

A = the tax fraction (14/114)

B = the lesser of the adjusted cost (including VAT) or the open market value of the goods or services at the time of the change in use (when the change in use is deemed to take place – i.e. at the year end)