

Strategy and Communications

Partnership Development and Communications

Office
Pretoria

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Reference
Non Executive Directors

Date
14 February 2017



South African Revenue Service

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Dear Recognised Controlling Body

Non-Executive Directors of Companies must register for VAT

SARS has confirmed the interpretation of the VAT law that requires non-executive directors (NEDs) of companies to register for and charge VAT in respect of any directors fees earned for services rendered as a non-executive director. Two binding general rulings – BGR Nos 40 and 41 were issued on 10 February 2017 confirming the interpretation as of 1 June 2017.

The value of the fees must, however, exceed the compulsory VAT registration threshold of R1 million in any 12-month consecutive period but NEDs can voluntarily register for VAT as well. Previously NEDs were subject to employees' tax (PAYE) because the director's fees received for services rendered were considered remuneration. However, due to amendments made in 2007 to the exclusions to the definition of "remuneration" in the Fourth Schedule to the Income Tax Act No. 58 of 1962 (the Act), there was uncertainty as to whether the amounts payable to an NED were subject to the deduction of PAYE. After consultation, review and application of the law it has been confirmed that an NED is regarded as an "independent contractor" and any directors fees paid or payable to an NED for services rendered in that capacity are not regarded as remuneration.

NEDs receiving director's fees exceeding the compulsory registration threshold are required to register as VAT vendors from 1 June 2017. However, NEDs will not be required to account for VAT in respect of directors fees received prior to this date, provided such NED was subject to PAYE.

SARS would like to encourage those NEDs already registered for another tax type to register for VAT via SARS eFiling at www.sarsefiling.co.za or to visit their nearest SARS branch. For more information NEDs and other parties concerned may contact VATRulings@sars.gov.za.

Sincerely;

A handwritten signature in black ink, appearing to read 'Babs Naidoo', written over a light blue horizontal line.

Babs Naidoo

Group Executive: Partnership Development and Communications

15/2/2017