



Tax & Exchange Control

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South Africa

- Taxpayers' entitlement to deduct VAT on rebates and discounts clarified



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Taxpayers' entitlement to deduct VAT on rebates and discounts clarified

In an as yet unreported judgment, the Tax Court, in record time, clarified and confirmed the entitlement of a taxpayer to deduct value-added tax (VAT) on rebates and discounts granted to its customers. The case was heard on 16 to 18 March 2026, and the judgment was handed down on 21 March 2026 by Van Niekerk J.

The facts and issue in dispute

The dispute related to whether banking fees charged by the taxpayer and which were subsequently reduced in terms of a cashback scheme, qualified for a deduction in terms of section 21(1)(c) read with section 21(2)(b) of the Value-Added Tax Act 89 of 1991 (VAT Act). The taxpayer provides transactional banking services to its customers, for which it charges an agreed banking fee and accounts for output tax on the fee. In terms of a cashback promotion, the banking fee was reduced either partially or in total if the customer complied with certain criteria and conditions. These included that the customer must, in addition to the transactional account, also have an active personal loan with the taxpayer and all its accounts must be in good standing.

The taxpayer deducted the VAT on the amount by which the banking fee was reduced. However, the South African Revenue Service (SARS) disallowed the deduction on the basis that the credit against the banking fee was “*not a tax credit note event*” as envisaged in section 21(1)(c) of the VAT Act.

The question which the court was called upon to consider, is whether the taxpayer was entitled to a VAT deduction on the amount by which the banking fees were reduced when the customer complied with the qualifying criteria as contemplated by section 21(1)(c) of the VAT Act. This section applies when the previously agreed consideration for a supply has been altered by agreement with the recipient, whether due to the offer of a discount or for any other reason.

SARS' arguments

SARS initially argued that the banking fees were charged for purposes of the right to operate a transactional banking account and the services rendered attendant to it. The amount credited to the banking fees under the cashback promotion was, in SARS' view, merely a mechanism to ensure that customers are sufficiently incentivised to utilise specific in-house products of the taxpayer and to gain access to other rewards offered by

the taxpayer. At the hearing, SARS raised a further argument, stating that there were two transactions. The first transaction consisted of a transactional banking service provided by the taxpayer. The second transaction, according to SARS, which is distinct and unrelated to the first transaction, consisted of behavioural actions performed by the customer. SARS argued that the amount credited to the banking fee did not reduce the fee initially charged for the banking service, but was consideration paid by the taxpayer to the customer for “services” which the customer rendered to the taxpayer by meeting the criteria and conditions for the cashback promotion.

The judgment

In considering the application of section 21(1)(c), the court stated that this section does not require a specific motive or stated reason for reducing the previously agreed consideration. The court clarified that the requirement to trigger section 21(1)(c) is simply that the previously agreed consideration for a supply of goods or services must be altered by agreement with the recipient, either due to the offer of a discount or for any other reason. If this judicial requirement is complied with, then the taxpayer is entitled to a deduction in terms of section 21(2) of the VAT Act, provided that the taxpayer has either provided a tax invoice in relation to the original supply, or it has furnished a return on which output tax on the original supply was accounted for.

The court confirmed that the inquiry into the judicial requirements of section 21(1)(c) is a factual enquiry which requires the taxpayer to establish the facts by admissible evidence on a balance of probability. Furthermore, section 21(1)(c) does not refer to any time period between the previously agreed consideration and the alteration of that consideration, which means that the agreed consideration and the alteration event may be separated in time and place. All that is required for section 21(1)(c) to apply is evidence of a reduction of a previously agreed consideration because the phrase “for any other reason” is so wide as to enable an enterprise to reduce a consideration for reasons that are not relevant in the context of the nature of the enterprise concerned.

The court held that the arguments advanced by SARS i.e. that there are two separate supplies and that the customer renders services to the taxpayer for which the customer receives the credit amount as consideration, are arguments based on a conflated interpretation of various sections of the VAT Act. The evidence (which was undisputed in

this case) should be considered as a whole, and certain facts in isolation should not be elevated while other facts are simply ignored.

The court concluded that both the jurisdictional and administrative requirements of section 21(1)(c) and section 21(2)(b) of the VAT Act were complied with by the taxpayer, and therefore the VAT on the amount credited to the banking fee of the customer qualifies as a deduction for VAT purposes.

Implications of the judgment

This judgment clarifies the interpretation of section 21(1)(c) and the circumstances under which the provisions of the section apply. It also emphasises the importance of the evidence which is presented to the court to discharge the taxpayer’s onus of proving its entitlement to a VAT deduction. Hopefully, this judgment will now put an end to SARS’ ongoing attempts to disallow VAT deductions on discounts, rebates and adjustments in relation to consideration previously charged on the basis that they “do not comprise a credit note event” as contemplated by section 21(1)(c) of the VAT Act.

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