

Tax & Legal Flash

Value-Added Tax: Use of exchange rates and currency fluctuations

A tax invoice for a supply subject to VAT at the standard rate must be issued in the currency of the Republic. SARS provides approved exchange rates in Binding General Ruling 11 (BGR 11) for determining the rand equivalent of a supply where a standard-rated invoice is issued in a foreign currency. BGR 11 provides that a supplier may use one of the following exchange rates as published on the website of the South African Reserve Bank, Bloomberg or the European Central Bank:

- (i) The daily exchange rate on the date the time of supply occurs;
- (ii) The daily exchange rate on the last day of the month preceding the time of supply; or
- (iii) The monthly average rate for the month preceding the month during which the time of supply occurs.

It is important to note that the options listed in (ii) and (iii) above may not be used in exceptional circumstances which result in the rand value being distorted. Examples include the collapse of a foreign currency *or a fluctuation in a foreign currency of 10% or more* within the month referred to in options (ii) and (iii) above. In these instances, the daily exchange rate on the date the time of supply occurs should be used, i.e. option (i).

The financial impact of the Covid-19 outbreak is evident in all countries around the world and the South African Rand has also shown to be very volatile over the past few weeks. The fluctuation of the exchange rate over the past month will likely result in the exceptional circumstances envisaged in BGR11. VAT registered vendors must therefore be very mindful of the risk associated with the application of exchange rates stipulated in points (ii) and (iii) above, as opposed to the daily exchange rate on the date the time of supply occurs.

Should you have any queries or require any assistance relating to the above, please do not hesitate to contact us.

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