

VATR 7

Ruling given under section 69 A of the Value Added Tax Act.

Facts

A VAT registered entity, wholly owned by an overseas entity provides marketing and technical support to the local network of distributors of the parent company's products. It recharges all its local expenses plus a margin to the overseas entity.

It now proposes to import computer equipment which will be used by a hotel group. It will capitalise and depreciate the equipment in its books and recharges the annual depreciation plus a margin to the parent company, as is the case with the other expenses.

On the other hand, the hotel group will pay a monthly fee to the overseas parent company of the locally VAT registered company for rental, maintenance and technical support.

Point at issue

Whether the VAT paid on importation of the computer equipment will qualify for repayment on the basis that the depreciation charge plus the margin is a zero-rated supply to the overseas parent company.

Ruling

The billing to the overseas entity of depreciation charge plus a margin is not a taxable supply for VAT purposes. The effective supply is the rental of the equipment which can only be done by the importer of the equipment itself, i.e the VAT registered entity.

Hence the question of repayment on the basis of zero-rated supplies does not arise.