



## THE EFFECT OF VALUE-ADDED TAX ON DIVIDENDS AND DIVIDENDS IN SPECIE DECLARED BY A VAT VENDOR

**Section 7(1)(a) of the Value-Added Tax Act, Act 89 of 1991 (the “Act”) provides for the levy of value-added tax (“VAT”) on the supply of goods or services by a vendor. Where there is no supply of goods or services, or where cash is supplied, no output VAT can be levied.**

Dividends declared by a company to its shareholders is a distribution of its profits. A dividend in specie is considered by SARS as a supply of goods for VAT purposes. The Act further stipulates that the supply of goods should be in the furtherance of the vendor’s enterprise which means that such supply of goods should be for consideration.

Taxable supplies which are made at arm’s length are taxable on the value of the consideration, but where no consideration is charged, the value is deemed to be nil. Where a dividend in specie is declared, no consideration is received by the vendor and the supply is therefore deemed to be nil.

Where such taxable supply is made between connected persons, either for a consideration which is less than the open market value or at no consideration, the value of the consideration is deemed to be the open market value thereof.

SARS does not provide clear guidance on the VAT considerations of a dividend in specie distribution. The rate of VAT levied on a distribution in specie is thus open for interpretation and no simple matter. The rate of VAT will depend on a variety of circumstances. It is therefore advisable to consider each distribution of a dividend in specie carefully as unforeseen and adverse VAT consequences may follow.

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Die Klubhuis, 26 Pinaster Avenue,  
Hazelwood, Pretoria, South Africa



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