

# Overview of VALUE-ADDED TAX

# What is Value-Added Tax

- VAT is an indirect tax charged on the consumption of goods and services in the economy
- Self assessment tax – Businesses' register with SARS and act as the agent of the government in collecting the VAT charged on a broad base of taxable transactions
- VAT is paid by a purchaser upon acquiring goods or services in South Africa from registered businesses as well as on the importation of goods and services into South Africa

# How does VAT work

- The mechanics of the VAT system is based on a subtractive or credit input method which allows the registered business (vendor) to deduct the tax incurred on business expenses (input tax) from the tax charged on the supplies made by the business (output tax)
- SARS receives from each vendor:  
$$\text{Output tax minus Input tax} = \text{VAT revenue}$$
- Some vendors can receive a refund from SARS where input tax is greater than output tax

# Rates of VAT

- Standard rate (on the supply of most goods and services)
  - 10% (1991 to April 1993)
  - 14% (April 1993 to present)
- zero percent rate (applied in respect exports, selected list of mainly zero rated food items, agricultural products and cross border services)
- Effective reduced rate on long term commercial accommodation taxing only 60% of the supply

# Zero Rated Supplies

- A purchaser will be charged VAT at the zero rate in respect of the following supplies:
  - 19 basic food items namely:

Brown bread	Vegetable cooking oil
Maize meal	Milk, cultured milk
Samp	Brown wheaten meal
Mealies, mealie rice	Eggs
Lentils	Edible legumes
Dried beans	
Pilchards	
Milk powder, dairy powder blend	
Rice	
Vegetables	
Fruit	

# Zero Rated Supplies

- Fuel levy goods (petrol, diesel and paraffin)
- Sale of a business as a going concern between vendors
- Sales of agricultural and pastoral goods to registered farmers, namely:
  - Animal feed
  - Animal remedy
  - Plants
  - Pesticide
  - Fertiliser
  - Seed
- Export of goods and services
- International transport
- Municipal property rates
- Housing subsidies to beneficiaries
- Grants paid to vendors by public authorities, municipalities and constitutional institutions

# Exemptions

- VAT exemptions mean that a business may not charge VAT in respect of certain supplies
- These businesses are not permitted to register with SARS as vendors if they make exclusively exempt supplies
- Supplies which are exempt are:
  - financial services (such as, interest earned for the provision of credit, life insurance, the services of benefit funds such as medical schemes, provident, pension and retirement annuity funds)
  - residential accommodation in a dwelling (but not holiday accommodation)

# Exemptions

- passenger transport in South Africa by taxi, bus, or train
  - educational services provided by recognised educational institutions such as, primary and secondary schools, technical colleges, or universities
  - childcare services provided at crèches and after-school care centres
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- Businesses making exempt supplies are not permitted to claim the VAT charged to them as input tax as no VAT is charged on their supplies



# Deemed standard rated supplies

- Certain transactions are deemed to be standard rated supplies and include:
  - trading stock taken out of the business for private use
  - certain fringe benefits provided to staff
  - assets retained upon ceasing to carry on a business
  - short-term insurance pay-outs paid in connection with the business
  - change in use of goods and services
  - the receipt of payments from government by designated entities for the purposes of taxable supplies

# Registration

- Registration is required to become a vendor in order to charge the tax, collect the tax and submit returns and pay the tax
- Two types of categories:
  - Compulsory
    - Taxable supplies (sales/turnover) must/likely to exceed R 1 000 000 in any 12 month consecutive period
    - Increased from R300 000 w.e.f. 1 March 2009
  - Voluntary (Optional for small business types)
    - Exceed a minimum of R 50 000 in said 12 month period
    - Start up business where the nature of activity will only realise sales after a period of time, e.g. farming, forestry, property development

# Records & Tax invoices

- Once registered, a vendor is required to maintain records in respect of all sales and purchases
- Maintain records for 5 years
- Critical requirement to issue and maintain:
  - Tax invoices in respect of supplies/sales made
  - Tax invoices in respect of purchases for which input tax is claimed
- Tax invoices must comply to validity requirements specified in the law
- Tax invoices create the audit trail in respect of a vendors VAT liability for which SARS may request to be furnished

# Calculation of VAT liability

- A vendor determines its VAT liability by calculating the sum of all output tax less the sum of all input tax
- Output tax is derived by applying the tax fraction (14/114) to all standard rated supplies
- Input tax is derived by calculating the VAT on all allowable business expenses
- Input tax is only allowed if a tax invoice is held by that vendor which must display the mandatory requirements on the tax invoice

# Calculation of VAT liability

- VAT cannot be deducted as input tax in respect of the following expenses:
  - Motor cars ( unless for example the business activity is that of selling motor cars or regularly awarding motor cars as prizes)
  - Entertainment (unless the business activity involves the regular supply of entertainment)
  - Sporting, social or recreational subscription fees

# Tax periods

- A vendors VAT liability is determined in accordance with the tax period under which it is registered
- A tax period is a specified period of months for which a vendor must calculate its VAT liability
- The following tax periods are available:
  - 2 months - standard reporting period
  - 1 month - applicable to large business where turnover exceeds R30 million per annum
  - 4 months – applicable to small business where turnover does not exceed R1.5 million per annum
  - 6 months – application to farmers
  - 12 months – applicable to holding & admin companies

# Submission and payments

- VAT returns and payments can be submitted manually or electronically for each tax period
- Manual submissions
  - Payment must be made by the 25th day after the end of tax period
- Electronic submissions
  - Payment must be made by the last business day after the end of tax period

# Refunds

- Where input tax exceeds output tax – the vendor is entitled to a refund
- Should the refund not be made within 21 days, interest is payable to the vendor
- The 21 business days interest-free period can be extended where SARS is unable to gain access to the vendors records to verify the refund
- The refund can be applied to offset the amounts owing in respect of other taxes, and the balance (if any) will be refunded



# VAT rulings

- 2 types of VAT rulings:
  - Advance tax ruling may be applied for in respect of a proposed transaction
  - Normal VAT ruling – generally in respect of a transaction that has already taken place (historic)
- Rulings can be non-binding written opinions or binding rulings

# Persons responsible for duties

- Representative vendor
  - must be a natural person
  - resident of South Africa
- Examples based on the nature of persons registered
  - Sole proprietorship – owner
  - Partnership – partners jointly and severally
  - Company – public officer
  - Municipality – accounting officer

# Domestic VAT Statistics (2009/10)

Type of Registration	Number of vendors	Nett VAT (R million)	% Contribution
Individual	103 548	3 769	4.8
Partnership	12 700	1 032	1.3
Company/ CC	340 536	75 885	96.1
Local/Public Authority	815	(4 288)	-5.4
Association not for gain	2810	905	1.1
Estate/Trust	30 715	1 556	2.0
Club	766	165	0.2
Welfare Organisation	1 147	(167)	-0.2
Other	221	109	0.1
<b>Total domestic VAT</b>	<b>493 258</b>	<b>78 967</b>	<b>100</b>
<b>Import VAT revenue</b>		<b>68 974</b>	
<b>Total VAT revenue</b>		<b>147 941</b>	

# VAT revenue performance

