

Introduction to Value Added Tax

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VALUE ADDED TAX

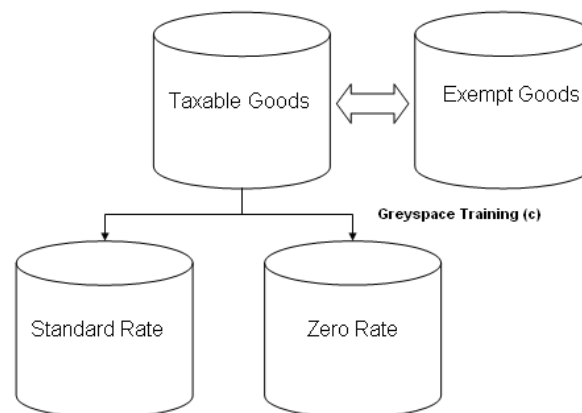
VAT is a very complex matter and the discussion here is for insight only. Delegates must contact their accountant or SARS for more information, before any actions are taken regarding VAT in a real business environment. The information provided may be out of date due to the amount of changes regularly published by SARS and no guarantee is provided.

Value-added tax (VAT) is an indirect tax levied in terms of the VAT Act. VAT must be included in the selling price on every “taxable” goods and/or services made by a business in the course.

* Not all goods are and services are “taxable”.

There are actually four types of goods or services based on the VAT act.

1. Taxable Goods or Services, which is divided into
 - a. Standard Rate Goods or Services
 - b. Zero Rate Goods or Services
2. Exempt Goods or Services



TAXABLE GOODS OR SERVICES

A taxable goods or services is the supply of goods or services made by a vendor in the course of business. A taxable goods or services is subject to VAT at either:

- Standard Rate, (currently 15%); or
- Zero Rated (0%)

STANDARD RATE GOODS OR SERVICES

Goods or services supplied by vendors in the RSA will generally be standard-rated, unless a specific zero rated or exempted tax rate applies. Imports are also generally subject to VAT at the standard rate, unless a specific exemption applies.

ZERO RATED GOODS OR SERVICES

Section 11 of the VAT Act provides for certain goods or services to be zero-rated.

- ✓ Goods exported from RSA
- ✓ Brown bread
- ✓ Brown wheaten meal
- ✓ Maize meal
- ✓ Samp
- ✓ Mealie rice
- ✓ Dried mealies
- ✓ Dried beans
- ✓ Rice
- ✓ Lentils
- ✓ Fruit and vegetables
- ✓ Pilchards and sardines in tins or cans
- ✓ Milk, cultured milk and milk powder
- ✓ Vegetable cooking oil
- ✓ Eggs
- ✓ Edible legumes and pulse of leguminous plants
- ✓ Dairy powder blends
- ✓ Petrol, diesel and illuminating paraffin
- ✓ Certain supplies to farmers
- ✓ Certain gold coins
- ✓ International transport and related services
- ✓ Services supplied outside RSA.

EXEMPT GOODS OR SERVICES

Exempt supplies are supplies of goods or services on which VAT is not levied. Exempt supplies are not taxable and do not form part of the taxable turnover for VAT purposes.

Section 12 of the VAT Act provides for those supplies that are exempt from VAT.

- ✓ Certain educational services
- ✓ Public transport by road or rail
- ✓ The provision of medical aid
- ✓ Interest on loans
- ✓ Life insurance and retirement fund benefits

REGISTRATION

COMPULSORY REGISTRATION

Any business where the yearly turnover is likely to exceed R1 000 000 in any 12 month period, must register for VAT.

VOLUNTARY REGISTRATION

In certain instances, any business where the yearly turnover is likely to exceed R50 000 in any 12 month period, can register for VAT.

CALCULATING VAT

For ease of reference, the following terms are defined:

INPUT VAT

Input VAT is the VAT paid by the business on invoices received from suppliers on the purchase of goods or services. To claim the input VAT the business must

- Use the goods or services in the making of their own goods and services
- The business must have a valid tax invoice from the supplier

The Input VAT from a supplier may only be claimed when the business is in physical possession of a valid tax invoice¹, regardless whether the goods or services were paid for.

Input VAT cannot be claimed on the following, as the business is deemed to be the final purchaser:

- Purchase/lease/hire of a motor vehicle as defined in the VAT Act.
- Entertainment Expenses
- Membership fees for sporting and recreational clubs

OUTPUT VAT

Output VAT charged by the business, at the standard rate by the business on all taxable goods or services. Output Vat can also include certain payments which give rise to deemed supplies, i.e. short-term insurance payments received for loss or damage to assets.

HOW TO ACCOUNT FOR VAT

A Business must the VAT owing to SARS on either the

- Invoice or
- Payment basis.

INVOICE BASIS

The most common way to account for VAT in a business is on the invoiced bases. Basically the VAT of all invoices received (input VAT) and all invoices issued (Output Vat) for a specific time period is deducted from one another. Input VAT may only be claimed when the business is in possession of a valid tax invoice from the supplier.

The main concern with the invoice basis is that the business is liable for the VAT on an invoiced, before the invoice is paid by the customer, which may result in cash flow problems. In businesses where payment delays may have a big influence on the cash flow and VAT payment, businesses may elect to use the payment bases for VAT calculations.

PAYMENT BASIS

In the payment basis, VAT of all invoices received (input VAT) and all invoices issued (Output Vat) are only calculated at the time when each invoice is actually paid.

TAX PERIODS

Tax periods are the predetermined number and periods length set by SARS, when a business must submit a VAT201 return. Generally speaking, there are five different tax periods. We are only interested in category A and B, which is bi monthly (I.e. the tax period is 2 months in length) for business with a turnover is less than R30 million a year.

REQUIREMENTS OF A VALID TAX INVOICE

For a tax invoice to be valid according to the VAT Act, the following elements/parts must be included:

1. The words "Tax Invoice" must be displayed in a prominent place.
 - For businesses not register for VAT, the text cannot be "Tax Invoice, but only "Invoice"
2. The business name and address.
3. The registration number.
4. An individual serialized number
5. The date upon which the invoice is issued.
6. For sales greater than R3000.00, the customer's name, address and VAT registration number.
7. A full and proper description of the goods or services supplied (indicating, where applicable, that the goods are second-hand goods).
8. The quantity or volume of the goods or services supplied.
9. Either - the value of the supply, the amount of tax charged
10. The tax rate charged.

For sales less that R3000.00, an abridged tax invoice may be issued. An abridged tax invoice contains the same information as a invoice, except that the following does not need to be specified:

1. Quantity or volume of the goods or services supplied
2. Customer's particulars.

For invoices less than R50.00 a till slip or shortened invoice can be used. .

SUBMISSION OF VAT RETURNS

MANUAL SUBMISSION OF THE VAT201

Where a busyness manually submits a VAT201 return to SARS, it must be received by the SARS branch by the 25th of the month following the end of the previous tax period. Where applicable, payment must accompany the VAT201 return. Where the 25th of the month falls over a weekend or on a public holiday,

the VAT201 return and the payment must be submitted to the SARS office no later than the last business day before the 25th of the month.

E-FILING/ ELECTRONIC SUBMISSION OF THE VAT201

Where a business has registered on e-filing to submit the VAT201 return and make payment electronically, the VAT201 return and the payment must be received by no later than the last business day of the month following the end of the previous tax period.

DUTIES OF THE BUSINESS (VENDOR)

Once registered as a VAT vendor, the business has the following responsibilities:

- Provide correct and accurate information to SARS
- Submit returns and payments on time
- Include VAT in your prices, advertisements and quotes
- Keep accurate accounting records
- Produce relevant documents when required by SARS
- Notify SARS about any changes in your business, namely its address, trading name, partners / members / shareholders, bank details and tax periods
- Issue tax invoices, debit and credit notes
- Notify SARS of any changes of the details of the representative person

Failure to meet these responsibilities could result in penalties being payable and prosecution, additional fines and/or imprisonment.

CALCULATING VAT ON AMOUNTS

VAT EXCLUSIVE TO VAT INCLUSIVE

To calculate inclusive VAT amount from an exclusive amount, multiply the exclusive amount by 1.15

Exclusive Value of R100 x 1,15 = R115.00 Inclusive Value

VAT INCLUSIVE TO VAT EXCLUSIVE

To calculate exclusive amount from an inclusive VAT amount, divide the exclusive amount by 1.15

Inclusive Value = R230.00 / 1.15 = R200.00 Exclusive Value

VAT VALUE ON EXCLUSIVE AMOUNT

To calculate the VAT on an exclusive amount, multiply the exclusive amount by 0.15

Exclusive Value R100 X 0.15 = R15.00 VAT

VAT VALUE ON INCLUSIVE VAT AMOUNT

To calculate the VAT on an inclusive VAT amount , divide the inclusive VAT amount by 115 and multiply

Inclusive R230.00/115 X 15 = R30.00

CALCULATING VAT LIABILITY

VAT DUE TO SARS = OUTPUT TAX - INPUT TAX

In determining the VAT liability, the business has to subtract the input tax claimed back from suppliers from the output tax charged on its own tax invoices. Where the output tax exceeds the input tax, the

business will pay the difference to SARS. Where the input tax exceeds the output tax charged, the business is entitled to a refund from SARS.

THE IMPLICATION OF VAT ON SELLING PRICES

Both Company A and Company B is VAT vendors:

	Excl Product Price	Vat Type	VAT	Incl Product Price
Company A makes the product and sells it to Company B for R100.00	R100.00	Output VAT	R15.00	R115.00
Company A pays R15.00 VAT to SARS				
Company B alters the product and sells it to a customer for R250.00	R250.00	Output Vat Input Vat	R37.50 -R15.00	R287.50
Company B pays R22.50 VAT to SARS Company B net profit is R 250.00 – R100.00 = R150.00 The customer pays R287.50				

Company A is a VAT Vendor, but the Company B is not VAT registered.

	Excl Product Price	Vat Type	VAT	Incl Product Price
Company A makes the product and sells it to Company B for R100.00	R100.00	Output VAT	R15.00	R115.00
Company A pays R15.00 VAT to SARS				
Company B alters the product and sells it to a customer for R250.00	R250.00	Output Vat Input Vat	R00.00	R250.00
Company B pays R00.00 VAT to SARS Company B net profit is R 250.00 – R115.00 = R135.00 (so by not being VAT registered the company loses out on input vat) The customer pays R250.00				

The Company A is not a VAT Vendor, but the Company B is VAT registered.

	Excl Product Price	Vat Type	VAT	Incl Product Price
Company A makes the product and sells it to Company B for R100.00	R100.00	Output VAT	R00.00	R100.00
Company A pays R00.00 VAT to SARS				
Company B alters the product and sells it to a customer for R250.00	R250.00	Output Vat Input Vat	R37.50	R287.50
Company B pays R37.50 VAT to SARS Company B net profit is R 250.00 – R100.00 = R150.00 The customer pays R287.50				

Both the Company A and Company B is not a VAT Vendor

	Excl Product Price	Vat Type	VAT	Incl Product Price
Company A makes the product and sells it to Company B for R100.00	R100.00	Output VAT	R00.00	R100.00
Company A pays R00.00 VAT to SARS				
Company B alters the product and sells it to a customer for R250.00	R250.00	Output Vat Input Vat	R00.00	R250.00
Company B pays R00.00 VAT to SARS The customer pays R250.00				

PASTEL VAT CODES

Pastel uses the following VAT codes during processing to allow for the correct capturing and calculation of VAT liabilities.

00	NO VAT	None VAT Registered	
01	Standard VAT	Standard Goods and Services	
02	Zero Rated	Zero Rated Goods and Services	
03	Exempt	Except Rated Goods and Services	
04	Bad Debts	Write back of bad debt	
05	Capital Goods / Assets	Buying of Capital Goods	

ASSESSMENT

If the business buys a product at R230.00 (including VAT) and sells it at R345.00 (incl VAT.)

What is the:

Input Vat:	
Output Vat:	
Vat Liability:	

A product is sold for R400.00 (incl VAT)?

What is the:

Excluding Price:	
Output Vat:	

What VAT type code is used for Petrol?

01 – Standard Rated	A
02 – Zero Rated	B
03 – Exempt	C

Submission of the completed VAT201 form to SARS must be effected on or before theday after the end of your tax period.

South African law requires that one enter the customers VAT number on an tax invoice, if the amount of the invoice exceeds:

VAT is charged on taxable supplies at either standard rate, i.e. 14% or at zero rate, i.e. 0%

VAT may be claimed on irrecoverable debts written off

The VAT that is charged by a vendor to customers is called the INPUT VAT

Value-added tax is an indirect tax levied by vendors on the supply of goods or services. Vendors, who are registered for VAT, are generally obliged to charge and collect VAT on taxable supplies from their customers or clients on behalf of SARS

20	25	30
R1000	R3000	R5000
T	F	
T	F	
T	F	
T	F	