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VALUE ADDED TAX (VAT)

1. DEFINITION AND PRINCIPLES:

VAT is the type of tax which concerns the biggest number of people in South Africa. Everybody, no matter what their salary is, has to pay VAT.

1.1 VAT Input and VAT Output:

VAT Input – is the VAT that a business claims **back** from SARS on the purchase of goods and services

VAT Output – is the VAT that a business **pays to** SARS on the sale of goods and services

Instead of the business paying the total VAT output that has been charged over to SARS and then claiming back the total VAT input that had been paid, only the difference is paid over to SARS.

The amount payable to / receivable from SARS can be calculated as follows:

VAT output – VAT input

If the answer is positive then the business owes SARS

If the answer is negative then SARS owes the business

1.2 Zero-rated Items:

These are items on which are currently levied at 0% VAT. This will mainly be made up of basic food types and other products seen as necessities. The minister of finance can, at any time, decide to start charging VAT at the standard rate on these products.

The following are examples of zero-rated items: brown bread, eggs, maize products and rice, milk, milk powder, fresh fruit and vegetables, lentils, dried beans and other legumes, sunflower oil, cans of sardines, fuel, and diesel.

1.3 VAT Exempted Items:

These are goods and services on which, according to law, VAT is not charged at the standard rate or at a zero rate.

The following are examples of VAT exempted items: financial services, leasing of private houses, transporting people via road or rail, educational services provided by the government, etc.

1.4 Standard Rated Items:

On all other goods and services which are not classified by the state of zero-rated items or exempted items. VAT must be charged at the standard rate of 15% and the amounts be paid over to SARS.

1.5 Who MUST Register as a VAT Vendor:

A business with a turnover of more than R1 million per year, must by law, register to be a VAT vendor.

A business with a turnover of less than R1 million a year but more than R50 000 a year may volunteer to be a registered VAT vendor.

2. Invoice and Receipt basis:

There are two ways of conducting the calculation of how a business pays or claims VAT, namely the invoice basis and the receipt basis. The norm is to work on an invoice basis and, unless a business specifically applies to use the other method, this will automatically apply when the business registers as a VAT trader with SARS.

2.1 Invoice Basis:

According to this method, VAT is payable to SARS and can be claimed back from SARS the moment that invoices are issued or received. VAT is therefore paid over to SARS before the actual debts are received from debtors and can also be claimed back before the actual repayments to creditors are made.

2.2 Receipt Basis:

According to this method, VAT amounts will only be paid over to SARS once the amounts owed by debtors have been received either in full or part. On the other hand the business will only be able to claim back VAT amounts from SARS once the amounts owed to creditors have been paid. Businesses have to specifically apply to use the receipt basis – if the turnover of a business is more than R2,5 million per year, it may not use this method.

3. Tax periods:

2 month tax periods are the standard; therefore, return submitted bi-monthly, i.e. months of January and February paid on 25th March.

4. VAT exclusive and VAT inclusive:

In South Africa it is common practice that prices on all goods that are sold to consumers are shown at the inclusive amount, i.e. the marked price includes VAT.

Calculations

- Inclusive amount given
 - For VAT amount: $\text{inclusive selling price} \times \frac{15}{115}$
 - For sales amount: $\text{inclusive selling price} \times \frac{100}{115}$
 - Cost of sales: $\text{exclusive selling price} \times \frac{100}{(100 + MU)}$
- Exclusive amount given
 - For VAT amount $\text{selling price} \times 15\% \text{ or } \times \frac{15}{100}$
 - Sales amount $\text{selling price} + \text{VAT (15\%)}$

5. Drawings of stock for own use:

- Affected VAT Input when you bought stock, you can claim the VAT back by treating it as VAT Input (+)
- If stock is taken out as drawings, the stock is not generating an income, therefore you cannot claim the VAT back – cancel VAT by treating as VAT Output (+)
- VAT on drawings is always worked out on the cost price excluding VAT

6. Submitting a VAT return:

- VAT returns have to be submitted to SARS on or before the 25th of the month
- Purpose: to disclose the amount of Output VAT charged and the amount of Input VAT that can be claimed back
- Payments can be made by cheque / electronic transfers / debit orders
- Failure to render the return on time – charged 10% of outstanding amount plus interest

7. Amounts claimed back:

- Not limited to trading stock
- Any purchases of goods that are essential for the business in running their operations, e.g. stationery; telephone; water & electricity, computers, equipment; packing materials; etc.
- CANNOT claim back on sedan cars or 4 x 4's and entertainment

8. Positive and negative VAT:

VAT OUTPUT	VAT INPUT
• Sales and debtors ○ Cash sales (+) ○ Credit sales (+) ○ Debtor's allowances / returns by customers (–) ○ Bad debts (–) ○ Discount allowed to debtors (–) ○ Bad debts recovered (+) ○ Discount allowed to debtors cancelled (+) • Drawings of stock (+) • Asset disposal (+)	• Purchases and creditors ○ Cash purchases (+) ○ Credit purchases (+) ○ Returns to suppliers/creditors (–) ○ Discount received from creditors (–) ○ Discount received from creditors cancelled (+)

NOTE:

- 1. NO VAT is recorded on salaries and wages; payment to creditors; and receipts from debtors**
- 2. Discount allowed, discount received, bad debts and drawings of stock are ALWAYS inclusive of VAT (unless specifically told otherwise)**

9. VAT Control Account:

VAT CONTROL ACCOUNT FORMAT

BALANCE SHEET ACCOUNTS SECTION				
VAT CONTROL			B8	
VAT INPUT (+) VAT OUTPUT (-)			VAT OUTPUT (+) VAT INPUT (-)	
Bank (cash purchases)	Input	CPJ	Bank (cash sales)	Output
Creditors control (credit purchases)	Input	CJ	Debtors control (credit sales)	Output
Debtors control (returns by debtors)	(Output)	DAJ	Creditors control (returns to creditors)	(Input)
Debtors control (VAT on discount allowed)	(Output)	GJ	Creditors control (VAT on discount received)	(Input)
Debtors control (bad debts)	(Output)	GJ	Drawings (stock)	Output
Drawings (stock returned by owner)	(Output)	GJ	Asset disposal (sale of an asset)	Output
Petty cash (cash purchases)	Input	PCJ	Bank (bad debts recovered)	Output

10. Effect of entries on the VAT Control Account:

If the business **OWES SARS**, then the VAT control account would be treated as a **liability** and the effect of the input and output VAT on this control account would be as follows:

- VAT Control (L) +	
VAT INPUT (+) VAT OUTPUT (-)	VAT OUTPUT (+) VAT INPUT (-)

If **SARS OWES** the business, then the VAT control account would be treated as an **asset** and the effect of the input and output VAT on this control account would be as follows:

+ VAT Control (A) -	
VAT INPUT (+) VAT OUTPUT (-)	VAT OUTPUT (+) VAT INPUT (-)

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