

June 2015



Value-Added Tax (VAT)

What you need to know

www.sars.gov.za
0800 00 7277

 **SARS**
At Your Service

Value-Added Tax

Value-Added Tax (VAT) is an indirect tax based on consumption of goods and services in the economy. VAT is a significant revenue raiser for Government which requires businesses (referred to as vendors that act as agents of the Government) to register and to charge and collect VAT on the supply of goods or services. The mechanism of charging, collecting and paying the VAT to Government is based on self-assessment, which allows the business to determine its liability or refund of tax. It adopts a credit input method which allows businesses (vendors) to deduct the VAT incurred on business expenses (input tax) from the VAT collected on the supplies made by the business (output tax). In other words, the burden of the VAT is on the final consumer while maintaining neutrality in the business chain.

What is the current VAT rate?

VAT is currently levied at the standard rate of 14% on most supplies and importations, but there is a limited range of goods and services which are either exempt, or which are subject to tax at the zero rate. Zero rated items mean that you pay 0% VAT on them. These are brown bread, milk, eggs, rice, petrol, sale of a going concern (such as a business) and direct exports. However, if the above mentioned products are sold as a meal, they are supplied at standard rates. For example, VAT is charged on a glass of milk at a restaurant.

Who should register as a VAT vendor?

A business can register for VAT, either under the compulsory registration category or the voluntary registration category.

- o **Compulsory registration**

You will be liable to register for VAT if the income earned from selling goods or fees earned from services supplied is more than R1 million in any consecutive period of 12 months, or will exceed that amount in terms of a contractual obligation in writing.

Non-resident suppliers of certain electronic services are also liable to register for VAT if the fees earned from electronic services that are supplied exceeds R50 000.

- o **Voluntary registration**

You can apply for voluntary registration even though your income earned from selling goods or fees earned from services supplied is less than R1 million. There is, however, a requirement that the income earned from selling goods or fees earned from services supplied must have already exceeded the minimum threshold of R50 000 in the past 12-month period.

Remember, if you choose to register for VAT, you will have to carry out all the duties of a VAT vendor. For example, you will have to charge VAT, submit VAT returns, make VAT payments to SARS on time and keep proper records of all sales and expenses incurred by your business.

May I register for VAT if my business only makes exempt supplies?

If you only make exempt supplies, you cannot register for VAT. Accordingly, you cannot charge VAT on your supplies and you cannot deduct any VAT incurred on expenses.

How do I register as a VAT vendor?

To register as a vendor, you need to complete an Application for Registration for Value-added Tax (VAT101) form and submit in person at the SARS branch nearest to the place where your business is situated or carried on. This means that, in the case of a sole proprietor the individual concerned must submit the VAT101 in person or in the case of any other person such as a partnership, company or trust, the relevant representative vendor must submit the VAT101 in person. Alternatively, a registered tax practitioner may appear in person on your behalf. Where you have several enterprises or branches or divisions which will operate under one VAT registration number, you should register in the area where the main enterprise, branch or division is located.

What supporting documents do I need to register as a vendor?

The following attachments are required when applying for registration:

- Original letter from your bank or recent bank statement with original bank stamp or ABSA bank eStamped statement
- Copy of identity document, driver's licence or passport of the representative vendor
- Recent copy of the business municipal account or utility bill or CRA01 form
- Recent copy of the residential municipal account or utility bill or CRA01 form for individual, partner or representative vendor
- Copy of financial information listed as sources under financial particulars

Do I have to register as a vendor for each of my businesses?

A vendor may register separately any enterprises, branches or divisions carried on for VAT purposes. This means that it is possible for a vendor to have more than one VAT registration number if the enterprise is carried on in branches or divisions.

A separate Application for separate registration of an Enterprise, Branch or Division (VAT102e) form must be completed for each enterprise/division/branch for which a separate registration is required.

It is important to note that a person who operates several enterprises, or who operates an enterprise in branches or divisions cannot avoid the liability to register for VAT by considering the turnover of each branch or division individually, for example, where a person has two businesses with a sales of R430 000 and R590 000 per annum respectively, the person should register for VAT as the total annual turnover exceeds R1 million. The person can, therefore, apply to SARS for separate registration for each business.

There are two conditions under which separate registration can be granted for any separate enterprise, division or branch, namely:

- An independent system of accounting for each business must be maintained.
- The entity must be capable of being separately identified (that is, either by the nature of the activities or the geographic location).

Can my application to register for VAT be rejected?

SARS only registers legitimate businesses for VAT. A voluntary application for registration may be declined if a sole proprietor or taxpayer is found not to:

- Have a fixed place of abode or business
- Keep proper accounting records
- Have opened a banking account
- Be able to provide proof of turnover (projections are not accepted)
- Have appointed a representative vendor (where members are foreigners)
- Attended the VAT interview at a SARS (posted applications will be not be accepted).

What are my obligations once registered for VAT?

You have to perform certain duties and take on certain responsibilities if you are registered or liable to register for VAT. For example, you are required to ensure that VAT is appropriately charged on supplies, that you submit VAT returns and make VAT payments on time, that you issue tax invoices where required and that you include VAT in all prices advertised or quoted.

Input tax

Generally, the VAT charged to you by another vendor on any goods or services acquired for the business can be deducted as input tax. To qualify to deduct the VAT, the goods or services must be acquired and used or supplied by your business to make supplies on which you charge VAT at either 14% or 0%.

You cannot deduct input tax on goods or services that are acquired for private purposes or where the goods or services are used or supplied but VAT is not charged.

There are certain acquisitions of goods and services, set out below, where you are not allowed to deduct the VAT charged to your business, even though you use those goods or services in your business or you supply those goods or services and you charge VAT at either 14% or 0%. Note that there are certain exceptions under which the VAT charged may be allowed to be deducted as input tax:

- Motor vehicles
- Entertainment
- Club subscriptions of a recreational nature
- Contribution to medical schemes or benefit funds.

Can I deduct any VAT on second-hand goods?

You are allowed, under certain circumstances, to deduct an amount of VAT as input tax on second-hand goods acquired from non-vendors, even though no VAT is charged to you or is actually payable by you. This is known as a notional or deemed input tax deduction.

The conditions under which a deemed or notional input tax deduction may be made are as follows:

- A declaration by the supplier stating whether the supply is a taxable supply or not (VAT 264)
- The goods must be "second-hand goods" as defined in the VAT Act
- The supply may not be a taxable supply (for example, if the goods are purchased from a non-vendor)
- The supplier must be a South African resident and the goods supplied must be situated in

South Africa. The purchaser must have made payment for the supply, or at least made part payment as an input tax deduction is only allowed to the extent that payment has been made

- The following prescribed records must be kept:
 - o Name, identity number and address of supplier
 - o Description and quantity or volume of goods
 - o Consideration for the supply
 - o Proof and date of payment.

The notional input tax is calculated by multiplying the tax fraction (presently 14/114) by the **lesser of** the consideration paid or the open market value (OMV).

The VAT201 Return

The Vendor Declaration (VAT201) is a return which must be completed and submitted to SARS at the end of every tax period. The VAT201 return reflects the VAT that you have charged on supplies (i.e. output tax) and the VAT charged to you which is deducted as input tax. The difference between output tax and input tax for a specific tax period could either result in you having to pay VAT to SARS, or you may be entitled to a VAT refund. If you are registered for VAT, you must submit your VAT201 return by the due date, even if there is no VAT payment or VAT refund for the tax period.

How do I request a VAT201?

A VAT201 return can be requested via one of the following channels:

- SARS branch (physical collection)
- SARS Contact Centre (to be posted)
- eFiling (submit electronically).

How do I submit the VAT201 return?

You must submit the VAT201 along with the payment on or before the 25th of each month. Even if you have a nil return, you must still submit the VAT201. If the 25th falls on a public holiday or weekend, payment must be made on the preceding business day. eFilers have until the last business day of the month to submit their return and make payment.

Late payments of VAT attract a penalty of 10% of the outstanding tax. Interest is also charged at the prescribed rate on any late payments made after the month in which the payment for the tax period concerned was due as well as any balance of taxes outstanding for past tax periods.

How can I make VAT payments to SARS?

Payments can be made via any of the following channels:

- A bank (Absa, Albaraka Bank Limited, Bank of Athens, FNB, HBZ Bank LTD, Nedbank or Standard Bank)
- SARS branch
- Electronic Funds Transfer (EFT) via the internet
- eFiling.

A unique Payment Reference Number (PRN) would automatically be generated and payments should be allocated to that specific PRN for the tax period in question.

Why would SARS hold back payment of refunds?

A vendor is entitled to a refund when an amount is refundable and is reflected in the return. A vendor is also entitled to be refunded an amount that was wrongly paid in excess of an amount charged in an assessment. SARS pays back refunds within 21 working days. If not, SARS will send you communication stating reasons why.

In certain instances, SARS may withhold a refund until:

- Details of a vendor's bank account are provided
- A vendor has submitted all outstanding VAT returns
- SARS is satisfied that a refund claimed will be refunded to another party by the vendor where the claimant vendor's output tax is borne by that other party.

TAX INVOICES

What is the difference between an invoice and a tax invoice?

- o An invoice is a document notifying a purchaser of an obligation to make a payment in respect of a transaction.
- o A tax invoice is defined by the VAT Act and enables a vendor to claim input tax related to a taxable supply.

What are the requirements for a tax invoice?

The following information must be reflected on a tax invoice for it to be considered valid:

Full Tax invoice (Consideration of R5 000 or more)	Abridged Tax invoice (Consideration less than R5 000)
<ul style="list-style-type: none">• The words "TAX INVOICE" in a prominent place• Name, address and VAT registration number of the supplier• Name, address and VAT registration number of recipient• Serial number and date of issue• Full and proper description of the goods and/or services• Quantity or volume of goods or services supplied• Price & VAT	<ul style="list-style-type: none">• The words "TAX INVOICE" in a prominent place• Name, address and VAT registration number of the supplier---• Serial number and date of issue• A description of the goods and/or services---• Price & VAT

What is a verification process and why does SARS conduct it?

A verification process entails the evaluation of accuracy of reporting relevant material. Relevant material that might be used will be supporting documents relating to the input tax deducted or output tax declared. SARS officials trained in VAT conduct the verification process. You will be notified of the request to submit relevant material shortly after submitting the return.

The requested relevant material is usually requested to be submitted via eFiling, by post or by delivery at your nearest SARS branch. The scope of the verification is generally limited to a single VAT period and will probably be the latest period.

What is an audit and how is it different from verification?

An audit is generally a detailed check on the correctness of VAT returns submitted and payments made by you. An audit normally involves an examination of multiple periods, and relevant materials may be obtained from third parties as well as from the vendor.

How does SARS conduct the audit process?

An audit is conducted based on the risk profile of a vendor and SARS communicates the scope of the audit to the vendor. A SARS official will contact you when the audit needs to be conducted and a notification of intention to do so will be issued to you. The vendor selected for an audit process will either be requested to furnish relevant material required to conduct the audit, or to prepare relevant material for an audit that will be conducted at a vendor's principal place of business. This is referred to as a field audit.

During a field audit, a vendor is required to provide reasonable assistance to the SARS officials conducting the audit. The SARS officials conducting the field audit must be in possession of SARS identity card and be authorised to conduct the field audit.

The law requires that a vendor must be kept informed of the progress of an audit at regular intervals. At the conclusion of the audit, a notice will be issued explaining any proposed material adjustments to be made and the vendor has the right to respond to the notice within 21 days.

More information

If you would like further information on VAT please visit the SARS website www.sars.gov.za or call the SARS Contact Centre on 0800 00 SARS (7277).

DISCLAIMER

The information contained in this leaflet is intended as guidance only and is not considered to be a legal reference, nor is it a binding ruling. The information does not take the place of legislation and readers who are in doubt regarding any aspect of the information displayed in the leaflet should refer to the relevant legislation, or seek a formal opinion from a suitably qualified individual.

For more information you may –

- Visit the SARS website www.sars.gov.za;
- Visit your nearest SARS branch;
- Contact your registered tax practitioner;
- Contact the SARS National Contact Centre –
 - o If calling locally, on 0800 00 SARS (7277); or
 - o If calling from abroad, on +27 11 602 2093 (only between 8am and 4pm South African time).

