

## VAT News 3 September 1995

### VATNEWS No. 3 - September 1995

#### *NEW ENVELOPES FOR VAT VENDORS*

As a result of complaints received that the postage paid return envelope provided to vendors was too small (resulting in cheques having to be folded), the matter was taken up with our printer. He then came up with the new envelope which can be returned to the Receiver of Revenue once you have removed the section with your address. These envelopes are not only the right size, but also save paper. This is but one example of our endeavors to provide a better service.

#### *NEW PROCEDURE FOR THE SALE OF DRIED MAIZE*

As result of changes to the Summer Grain Scheme relating to the marketing of dried maize, a new practice is being introduced to clear up any uncertainties in regard to when the zero rate applies.

As from 1 September 1995 farmers, co-operatives and other vendors in the distribution chain may supply all dried maize (except popcorn mealies) at the zero rate, provided the maize is supplied **to other registered vendors**. (The purchaser's VAT number must be entered on the tax invoice.) The zero-rating still applies to the supply of maize meal, samp, mealie rice and dried silo screened or dries mealies **for human consumption** even where supplied to consumers.

No changes have been made as regards the supply of maize products to farmers for agricultural, pastoral and other farming purposes. When farmers buy maize for use as animal feed or as seed it may be acquired at the zero rate provided they produce their VAT registration certificate bearing the endorsement allowing farmers to buy certain goods at the zero rate and the number thereof is entered on the tax invoice.

#### *VEGETABLES AND FRUIT*

A number of enquiries have been received asking in what circumstances can fruit and vegetables be supplied at the zero rate. Where they are sold in their natural or frozen state the zero rate applies. If dehydrated, bottled, canned, cooked or treated in any way other than to preserve them in their natural state the standard rate applies. The standard rate also applies where they are sold as part of a meal.

Herbs (e.g. parsley), spices (e.g. ginger), green peppers, green mealies, garlic, chillies and mushrooms are all regarded as vegetables and may be supplied at the zero rate unless dried, canned, bottled or cooked. Slices of pumpkin or vegetables cut up as a soup mix (either fresh or frozen) can also be sold at the zero rate, but not when mixed with standard-rated items (e.g. dried spices). The standard rate applies to nuts. White peanuts (if not roasted, salted or mixed with other nuts or raisins) may be sold at the zero rate, the sale of all other nuts is standard-rated. The reason for this is that a peanut is a leguminous plant.

#### *REPRESENTATIVE VENDORS*

The person responsible for performing the duties imposed under the VAT Act in the case of a company, institution, association, trust fund or deceased or insolvent estate is called a representative vendor. Such person **must** notify the Receiver of Revenue within 21 days of becoming a representative vendor or ceasing to be one. In the case of executors, trustees and administrators of estates they are requested to send a certified copy of the Letter of Appointment issued by the Master of the Supreme Court to the Receiver of Revenue.

#### *DOUBLE CAB VEHICLES*

The Income Tax Special Court recently delivered judgement in VAT Case No. 6 on the question of whether a double cab vehicle constitutes a motor car as defined in the VAT Act.

Vendors, other than motor dealers and motor car manufacturers may not claim input tax deductions in respect of the acquisition or rental of motor cars. The Court concluded that an objective test has to be applied as to whether the vehicle is constructed mainly (i.e. more than 50%) for the carriage of passengers. This implies that the purpose for which the vehicle was acquired or for what purpose it will be used is irrelevant. The fact that the vehicle is classified as a light delivery vehicle for registration purposes is also irrelevant. The Court found that the vehicle in question was constructed mainly for the carriage of passengers as the buyer had been prepared to forgo a certain amount of loading space for the convenience of more passenger space. The appeal was therefore dismissed.

## *THE INVOICE AND PAYMENTS BASIS*

The VAT Act allows vendors with turnovers of less than R2,5 million a year to apply to use the payments basis. This is intended to cater for small business with very basic accounting systems.

Vendors registered on the payments basis pay over VAT on actual payments received and deduct input tax when payments are made to suppliers. They must, however, also hold tax invoices to prove that supplies made to them were taxable supplies. These vendors obviously cannot claim deductions for bad debts.

Vendors registered on the invoice basis account for output tax on the basis of invoices issued (unless payment occurs first) and claim input tax deductions on the basis of invoices received.

The vendor's basis is indicated on the VAT registration certificate.

A vendor should choose the basis which best fits in with his accounting system.

## *HOTEL BOOKINGS THROUGH TRAVEL AGENTS*

A deduction of input tax is allowed for personal subsistence (i.e. accommodation and meals) where the vendor, a partner or an employee is obliged to spend a night away from his home by reason of his duties. If bookings are made through a travel agent it sometimes happens that the accommodation is booked under the name of the travel agency and the tax invoice is consequently made out to the travel agency and not the vendor or his employee. Input tax deductions may nevertheless be claimed despite the fact that the vendor or employee's name does not appear on the tax invoice, provided he can show that the travel agent was acting as his agent (e.g. where he has been charged for the accommodation on an account/statement from the travel agent).

## *INCORPORATION OF BOPHUTHATSWANA VENDORS*

Vendors of the former Republic of Bophuthatswana have recently been taken on the South African VAT register and issued with new VAT registration certificates. As from 1 October 1995 they must issue tax invoices under their new registration numbers. Tax invoices issued from that date under the old registration numbers are invalid. All VAT registration numbers now consist of 10 digits and begins with the number 4.

## *EXPORT OF SECOND-HAND GOODS*

The supply of goods which are exported is zero-rated where the vendor obtains proof of export and has complied with the requirements of the Export Incentive Scheme. However, where second-hand goods have been acquired from a non-vendor or from a connected person who in turn acquired them from a non-vendor the zero rate may **not** be applied. In such cases output tax equal to the notional input tax claimed must be levied.

**Example** – a car dealer buys a second-hand motor car from a private person for R11 400 and sells it to a resident of Zambia for R15 000 (excluding VAT). The output tax he must levy is R1 400 and not R2 100 because he would have claimed a notional input tax deduction of R1 400 (i.e.  $14/114 \times R11\ 400$ ). The selling price inclusive of VAT is therefore R16 400.

These principles are of particular importance to antique and art dealers who supply second-hand goods to foreign tourists. The tourist's attention should be drawn to the fact that no refund of the VAT will be made on his departure from the RSA.