

VAT News 4 - December 1995

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SALES TO FOREIGN TOURISTS

With the increase in tourism vendors who sell goods to foreign tourists should keep the following in mind.

- VAT **must** be charged at the standard rate (except in the case of zero-rated foodstuffs or Kruger Rands), unless the goods are delivered or posted to an address outside South Africa.
- The tourist should be given a full tax invoice showing his or her name and address, a description of the goods and the quantity thereof, the name, address and VAT registration number of your business, the date of issue and the VAT charged or a statement that VAT was charged at 14 per cent.

Persons resident outside South Africa, except those from Botswana, Lesotho, Namibia and Swaziland (which countries are members of the Southern African Customs Union), may obtain a refund of VAT upon departure. They must present the goods and the tax invoice to the VAT Refund Administrator or the Customs officials at the departure point and, if everything is in order, the refund will be made by the VAT Refund Administrator. A small service fee is deducted from the refund.

Experience has shown that many refunds cannot be made, because tourists do not have valid tax invoices or they fail to produce the goods on departure.

Please bear in mind that no refunds can be made in respect of services (such as hotel accommodation and medical services) supplied while the tourist is in South Africa.

MOTOR CARS

As commonly known, vendors who do not deal in motor cars are not entitled to an input tax deduction when a motor car is purchased, even if acquired in the course or furtherance of an enterprise.

These provisions were introduced because of the impracticalities of determining whether or not a motor car is in fact used in the enterprise or, as in many cases, for private purposes or as a fringe benefit.

The good news on the other hand, which is probably less well-known, is the fact that no output tax is leviable when a car, on which the input tax was denied, is sold.

VAT AUDITS

When carrying out a VAT audit (which will happen at least once every 3 to 5 years, when a refund is claimed or merely based on a selection process), usually only one to three tax periods are selected, and normally only one of four fields is audited (input tax or adjustments to these fields).

As a result of these procedures, certain incorrect accounting or VAT practices may not be identified by the VAT auditor. Vendors must therefore not assume that merely because they have had a VAT audit, incorrect accounting of VAT has been accepted. If you have any doubts please use the VAT auditor's visit as an opportunity to discuss the matter.

You should, however, bear in mind that verbal rulings do not have the force of law and that, where any uncertainties exist, you should apply for a written ruling.

DISCOUNT VOUCHERS AND COUPONS

There seems to be some uncertainty as to the VAT implications of discount vouchers and therefore a few basic guidelines are provided. There are four different kinds of vouchers:

1. Gift vouchers:

The original purchase of the vouchers is disregarded for VAT purposes as it does not constitute consideration for a supply of goods or services. VAT is levied on the full selling price when these vouchers are used as payment for goods purchased.

2. Coupons (e.g. milk):

VAT is levied at the stage when the coupons are sold, but not when they are exchanged for goods.

3. In-store discount vouchers:

These are treated as a discount and VAT should be calculated on the **nett** selling price of the goods after the discount on the voucher has been taken into account (normal exclusive price, less discount, plus 14%).

4. Manufacturer's discount vouchers:

When the voucher is issued free of charge by the manufacturer, the monetary value of the voucher must **include** VAT.

The retailer accounts for VAT on his normal selling price when the voucher is surrendered by his customer as part payment for the goods purchased. The amount claimed from the manufacturer (or discount clearing house) is not subject to VAT.

The manufacturer is entitled to an input tax deduction of 14/114 of the monetary value of the voucher when he redeems the voucher.

VAT 404, GUIDE FOR VENDORS

You should by now have received the second edition of the VAT 404, Guide for Vendors – if not, please contact your Receiver of Revenue. It would be appreciated if you would insert the word "not" before the second time the word "vendor" is used in the second sentence in paragraph 16.7 on page 97.

PARTNERSHIPS

If you are a partner in a VAT registered partnership you may sometimes act as an agent for the partnership in dealings concerning the acquisition of goods.

When a partner buys an asset in these circumstances for use in the course of the partnership's enterprise, an input tax deduction will be allowed in the hands of the partnership, but only if the asset is in the financial statements of the partnership.

If the asset is later sold, withdrawn by the partner, or should the partnership deregister, output tax must be accounted for by the partnership.

WITHDRAWAL OF VAT PRACTICE NOTE NO. 3

It is intended to withdraw the authority to issue VAT exclusive price lists where the price lists are issued only to other registered vendors, as this concession has been misused. Vendors who have any difficulties in this regard should contact this office.

PROMPT PAYMENT DISCOUNTS AND REBATES

A number of cases have recently come to light where vendors have not adjusted their input or output tax to take prompt payment discounts or other rebates into account (such as insurance premium refunds). Please remember to make these adjustments to avoid the imposition of penalties and interest.