

## VAT News 8 - December 1996

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#### *RETIREMENT HOMES*

The Value-Added Tax Act has special provisions relating to these homes to ensure that they are treated as fairly as possible. One important principle that cannot be overlooked is that persons living in such homes must not enjoy a more favourably tax dispensation than persons in similar circumstances living elsewhere.

A home run as a commercial venture is treated as a residential hotel. However, where it is run by an association not for gain which has a fundraising number from the Department of Welfare, it will in effect claim input tax on its inputs which bear VAT, and declare output tax at the standard rate only on charges made to its residents. Compulsory or voluntary contributions made by any relative of the resident are also subject to VAT.

**Output tax is determined as follows:**

**Standard rate:**

Where an all-inclusive charge is made, 20% of the charge (meals) is taxed in full and only 60% of the remainder (accommodation and other services) is taxed.

**Example:** Mrs Smith receives a social grant of R400-00 per month of which R300-00 is taken by the home for board and lodging.

The amount of R300-00 includes R26-07 VAT (i.e., a rate of 8,69% on the VAT inclusive amount). The output tax is determined as follows:

VAT exclusive charge	R273,93
Less 20%	<u>R 54,79</u>
	<u>R219,14</u>
R54,79 x 14%	R 7,67
60% of R219,14	<u>R 18,40</u>
- R131,48 x 14%	<u>R 26,07</u>

(i.e. a rate of 9,52% VAT exclusive)

On the VAT return the amounts of R54,79 and R7,67 are added together and shown in Block 1. This amount is multiplied by the tax fraction (14/114) and the result is carried over to Block 4.

The remaining R219,14 is inserted in Block 5, multiplied by 60% (Block 6), carried over to Block 8, and then multiplied by the tax rate (14%). The result is inserted in Block 9.

**Zero-rate:**

Like subsidies received from the State, provincial administration and local authorities.

**Exempt:**

Income from fund-raising activities (such as cake sales) is exempt from VAT provided only donated goods are sold by the organisation.

Other amounts such as interest on investments, donations and bequests are not subject to VAT.

**Input tax:**

All input tax relating to the erection and operating of a home may be claimed as a deduction. This includes meals provided to staff, the only exception is VAT paid in respect of the purchase of passenger vehicles e.g. cars, station wagons, combis and double cabs.

#### **Flats and cottages:**

Where residents live in separate flats or cottages (for example in retirement villages but **excluding** frail care centres) the charges made for such accommodation are exempt from VAT.

No input tax deductions may be made in respect of the cost of erecting or operating such accommodation. Separate charges for meals and other services are subject to VAT at the full standard rate and input tax relating thereto is deductible.

#### **CHANGE OF PARTICULARS**

Vendors must advise the Receiver of Revenue within 21 days of any change of:

- address (both postal and street)
- trading name
- bank account details
- accountant or bookkeeper
- composition of partnership
- principal nature of business.

In addition, any vendor authorised to account for VAT on the payment basis must advise the Receiver of Revenue if this turnover exceeds R2,5 million per annum. Failure to comply with the above is not only an offence, but can lead to many other problems for both the vendor and Inland Revenue.

#### **ADDITIONAL REMITTANCE BOXES**

Vendors in the Northern Johannesburg area may wish to note that cheques and VAT returns may be deposited in boxes provided at the Randburg Police Station and the Corporate Tax Centre, Block G, Hurlingham Office Park, c/o William Nicol Drive and Republic Roads, Hurlingham. The Receiver of Revenue, Johannesburg, clears these boxes daily.

#### **IRRECOVERABLE DEBTS**

A vendor who accounts for VAT on the invoice basis may claim an input tax deduction in respect of debts which have become irrecoverable. In the exceptional case where a vendor is registered on the payments basis and has already accounted for a taxable supply which was paid with a cheque and the cheque is dishonoured, such vendor may also claim an input tax deduction.

The circumstances under which such a deduction may be claimed, require firstly that there must have been a taxable supply for a consideration in money. Secondly, the vendor must already have accounted for the supply in a VAT return and is only then entitled to claim a refund for the amount of output tax included in the irrecoverable debt, i.e. the tax fraction (14/114) of the amount which has become irrecoverable.

A debt will be considered as irrecoverable if the vendor has complied with both the following requirements, namely:

- the vendor must have done all the necessary entries in his accounting system to record that the amount has been written off, and
- must have ceased any recovery action taken by himself and have decided to either not take any further action or have handed the debt over to an attorney or debt collector.

The vendor may then claim an input tax deduction in the tax period in which both of the abovementioned requirements have been met. Where any amount is later recovered, output tax must be accounted for on the amount recovered.