

VAT News 11 - September 1998

VATNEWS No. 11 - September 1998

Important information for Vendors

IMPORTS AND EXPORTS

One of the principles of South Africa's VAT system is that local consumption of goods or services is subject to VAT at the 14% **standard rate**, while exports are **zero-rated**. Where goods or services are supplied in, or imported into South Africa VAT at the **standard rate** is levied.

IMPORTS

In the case of imports VAT is usually levied when the goods enter South Africa, by way of a harbour, airport, railway station, a land border post or the post office. In certain circumstances VAT is levied only when the goods are released from a Customs and Excise Warehouse.

At present VAT is not collected on the borders between South Africa and Botswana, Lesotho, Namibia and Swaziland (the BLNS Countries). Imports from these countries are not exempt from VAT, but the collection mechanism is different. **This is about to change.**

As from 1 October 1998 VAT will be collected at the following **designated commercial ports** in respect of:

Botswana	Namibia
Groblersbrug	Narogas
Kopfontein	Violsdrift
Ramatlabama	
Skilpadshek	

and from 1 November 1998 this will also apply to the following **designated commercial ports** in respect of:

Lesotho	Swaziland
Caledonspoort	Mahamba
Ficksburg Bridge	Mananga
Maseru Bridge	Jeppes Reef
Quachasnek	Nerston
Van Rooyens Hek	Oshoek
	Golela

Imports from the BLNS countries must be declared on a CCA1 form and payment of VAT made in cash, by postal or money order, bank guaranteed cheque or by making use of the deferment scheme (details available from Controllers of Customs).

All other border crossings (non-designated ports) with these countries will remain open, but only in respect of persons, their vehicles and personal possessions for use during their stay in South Africa. It will be an offence to import any **commercial goods** through non-designated ports.

EXPORTS

Direct Exports

Where a South African vendor sells goods and **delivers or consigns**, i.e. appoints a cartage contractor to deliver the goods to the recipient (the purchaser) at an address **outside** South Africa, he may apply VAT at the zero rate, **provided**

he furnishes the proof required by SARS that the goods have been exported in accordance with the prescribed Customs procedure via a **designated commercial port**. In addition to the ports mentioned earlier, the following are also designated commercial ports for purposes of exports :

Harbours	Airports	Railway Stations
Cape Town	Bloemfontein	Germiston
Durban	Cape Town	Golela
East London	Durban	Maseru Bridge
Mossel Bay	Gateway (Pietersburg)	Mafikeng
Port Elizabeth	Johannesburg	Upington
Richards Bay	Lanseria	
Saldanha	Mmabatho	Land Borders
	Nelspruit	
	Port Elizabeth	Beit Bridge
	Upington	Lebombo

See VAT Practice Note No 1 of 1998, as amended.

Delivery takes place in the contractual sense at the place and moment in time where ownership and risk passes from the seller to the purchaser. In order to comply with the zero-rating provisions in section 11(1)(a) of the Value-Added Tax Act, 1991, read with paragraph (a) of the definition of *exported* in section 1 of the Act, delivery must take place outside South Africa.

Indirect Exports

In line with the principle that exports should be zero-rated, special provision is made for exports where **delivery** takes place in South Africa. This is catered for in the VAT Export Incentive Scheme envisaged in paragraph (d) of the definition of *exported*. The present Export Incentive Scheme is withdrawn and replaced by a new **Scheme as from 1 October 1998. All rulings issued in terms of the previous Scheme are also withdrawn as from 1 October 1998.** It follows that the concession in respect of **export trading houses** also falls away. Copies of the new Scheme can be obtained from Receivers of Revenue or on the web site <http://www.sars.gov.za/>

The Scheme has 2 Parts. Part 1 provides for supplies to be made at the standard rate, with the qualifying purchaser as defined in the Scheme, or his representative, obtaining a refund by way of the VAT Refund Administrator. Goods must be exported from South Africa in accordance with the prescribed Customs procedure through a **designated commercial port** (as referred to above). At many of these ports immediate refunds can be obtained. The refunds are subject to a fee equal to 1,5% of the VAT inclusive price, with a minimum of R10 and a maximum of R250 per claim. The total value of invoices per claim must exceed R250. This part of the Scheme has been in operation since 1991 and is used mainly by tourists.

Part 2 of the Scheme permits the **zero rate** to be applied to exports by **rail, sea or air** where, irrespective of the contractual delivery terms, the South African vendor ensures that the goods have been exported to a qualifying purchaser as defined in the Scheme in accordance with the prescribed Customs procedure through a **designated commercial port**. The decision to apply the zero rate is at the vendor's risk. Should it transpire that the goods have not been exported, or the requirements of the Scheme not met, the vendor will be liable for VAT at the **standard rate** as well as penalties and interest.

International Transport

The international transport of goods is subject to VAT at the zero rate in terms of section 11(2)(a) of the Act.

CHECKING ON VAT REGISTRATIONS

A vendor making or receiving a taxable supply may want to check that the other party to the transaction is a VAT registered vendor. This information may be obtained by letter or telefax from your Receiver of Revenue. All other information relating to a person's tax affairs is protected by secrecy provisions in the tax laws.

TAX INVOICES

Tax invoices where VAT is charged at the **standard rate** must indicate the consideration and VAT in Rands, even if the parties to the transaction contract in a foreign currency. This ensures that the output tax declared by one vendor

matches the input claimed by the other. The difference between the consideration charged and that paid as a result of currency fluctuations are ignored for VAT purposes - the VAT is fixed at the original time of supply. It follows that a vendor may issue **zero-rated** tax invoices only in a foreign currency should he so wish.

SECOND-HAND GOODS

Before a vendor can claim a notional input tax credit in respect of second-hand goods purchased from a non-vendor he must comply with the requirements of section 20(8) of the VAT Act. As from July this year a further requirement has been added where the consideration for the supply exceeds R1 000 - the supplier must confirm in writing that the supply is not a taxable supply.

INPUT TAX IN RESPECT OF PAST TAX PERIODS

The VAT Act allows a vendor to claim an input tax deduction in a later tax period if he did not claim it in the period during which the supply was made to him. This often happens when a tax invoice is not received by the time a vendor must submit his VAT return. A vendor may, however, not claim an input tax deduction in respect of supplies or imports made more than 5 years ago.

AMOUNTS REMAINING UNPAID AFTER 12 MONTHS

Where a vendor on the invoice basis has claimed an input tax deduction in respect of supplies made to him and has not paid the full consideration charged in respect thereof, after 12 months has lapsed, he must account for output tax equal to the tax fraction of the amount still outstanding. The vendor must account for the VAT by means of an adjustment in his VAT return. Where a payment for the goods and services is, in terms of the agreement, payable in instalments, the adjustment for each unpaid instalment must be made 12 months after the instalment fell due. If the vendor subsequently pays the outstanding amount he may, of course, claim an input tax deduction.

ARE YOU READY FOR Y2K?

"Y2K" is short for "Year 2000", and refers to computer related problems due to the fact that computer chips were programmed in such a way that they recognised only two-digit dates - "98" instead of 1998. The year "2000" will thus be read as "00" and this will lead to major errors in any computer based system - including security, communications and accounting systems - to mention just a few.

There are now less than 500 days to the new millennium and it is essential that any business using any form of information technology does an impact assessment, plans for addressing the problem, repairs or replaces software and tests it long before the deadline. Your deadline might even be earlier if your system uses dates in the future. If you buy new electronic equipment make sure it is Year 2000 compliant. Also make sure your staff, suppliers and customers are aware of the problem and take steps to address it.

Further general information on the Y2K problem can be obtained from the National Year 2000 Decision Support Centre - tel (012) 427-8232 or on the Internet Web Site <http://www.y2k.org.za/>

SARS established a corporate project (the SARS Year 2000 Project) during April 1997 to ensure that SARS can survive and surpass the millennium transition. The scope of the project includes software, equipment, forms and services.

Specific SARS related queries can be addressed to the SARS Year 2000 project Manager at E-Mail brhyn@ptar4.sars.gov.za or information obtained on the Internet at <http://www.sars.gov.za/>

VAT RETAIL SCHEME

Vendors, such as cafés and supermarkets, selling both zero and standard rated products must keep their accounting records in such a manner that they can prove which sales were made at the zero rate and which at the standard rate. In the absence of such records all sales will be treated as standard rated supplies. To accommodate small vendors, i.e. those with yearly turnovers of less than R2,5 million and basic accounting records, a VAT Retail Scheme is being introduced. The scheme allows such vendors to determine their zero-rated supplies from zero-rated purchases (to which a mark-up is added). Please contact your Receiver of Revenue for further details if you wish to use the scheme.

PAYMENTS AT BANKS

VAT payments can now be made at any branch of First National Bank. Vendors are reminded however, that part one of the VAT return form (VAT 201) must still be forwarded to the Receiver of Revenue by the due date.

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