

VAT News 16 - March 2001

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CORRESPONDENCE TO SARS

If you want to obtain a ruling or decision regarding any VAT matter, please direct your query to your Receiver of Revenue. Letters sent directly to Head Office will be redirected to your Receiver of Revenue. Should a matter have to be referred to Head Office, the Receiver of Revenue will forward the information with his recommendation.

SKILLS DEVELOPMENT LEVY AND EDUCATIONAL SERVICES

The Departments of Finance and Labour are holding discussions regarding the VAT aspect of the Skills Development Levy (SDL). The current position that the SDL payable by employers includes VAT at the standard rate has not changed. However, it is important to note that grants paid to employers by SETA'S must be declared as standard rated supplies.

Example: Vendor X pays a SDL of R100,00. He may claim input tax amounting to R12,28 ($R100,00 \times 14/114$). If he receives a training grant of R50,00 he must declare R6,14 ($R50,00 \times 14/114$) output tax.

VERIFYING OF VENDORS

A valid tax invoice can only be issued by a registered vendor. If you are not sure whether a party to a transaction is registered for VAT or suspect that a tax invoice has been issued fraudulently, your local Receiver of Revenue is permitted to confirm verbally or in writing whether the supplier is registered for VAT or not.

Please note that the Receiver of Revenue cannot divulge any confidential information such as personal information or turnover details. SARS is planning to make the VAT registration numbers and trading names of all vendors available on its website.

VAT EVASION

Vendors are warned to be on the lookout for activities of staff or syndicates aimed at defrauding businesses and SARS of VAT and/or customs duties.

Recent cases involve fictitious supplies to vendors where not only the VAT, but also the cost of fictitious goods or services has been stolen from the vendor.

ILLUMINATING OR HEATING PARAFFIN (KEROSENE)

As from 1 April 2001, the sale of illuminating paraffin will be subject to VAT at the zero rate. The price to consumers should drop by about 40 cents per litre. The new price must be charged on old stock, even if VAT at 14% was paid on the purchase as this will be claimed as input tax in the normal way. Any vendor charging VAT at 14% on the sale of illuminating paraffin after 31 March 2001 is liable to criminal prosecution.

Please note that this change applies to illuminating paraffin only. Any other forms of paraffin or illuminating paraffin that is blended or mixed with any other products must still be charged with VAT at the standard rate.

DIESEL REFUNDS

The Minister of Finance has announced that users of diesel in the agricultural, mining and fishing industries will, as from 4 July 2001, be granted a refund in respect of qualifying diesel usage. The diesel refund process will be

administered through the existing VAT system. In order to claim a diesel refund, any qualifying diesel user must register for the scheme at their Receiver of Revenue. Application forms and a booklet giving details of the rules and procedures of the scheme will be available from May 2001.

FRINGE BENEFITS

Where a director or an employee enjoys a fringe benefit arising from employment, output tax must be declared on the fringe benefit. For motor cars, the amount that must be declared is 0,3% of the price of the motor car excluding VAT, multiplied by 14/114. Where the vehicle is not a motor car, e.g. a bakkie or motor cycle, the percentage that must be used is 0,6% and not 0,3%.

Example:

An employer provides a company car that costs

R114 000 including VAT to an employee. Output tax is calculated as follows:

First, calculate the price of the car excluding VAT.

$$R114\ 000 - (R114\ 000 \times 14/114) = R100\ 000.$$

Then calculate the amount of output tax:

$$0,3\% \times R100\ 000 \times 14/114 = R36,84$$

Please note, this amount is per month. If the vehicle is a motor cycle, bakkie or delivery vehicle, the calculation would be:

$$0,6\% \times R100\ 000 \times 14/114 = R73,68$$

VAT auditors have found many omissions in this regard and vendors should ensure that under-declarations are rectified.

MEDICAL PRACTITIONERS

Medical practitioners must take note that the 2001 Recommended Scale of Benefits now distinguishes between practitioners registered for VAT and those who are not. A practitioner not registered for VAT may no longer charge the previous tariffs which did not make this distinction.

CATEGORY E REGISTRATION

Category E is a new tax period that allows

vendors to submit an annual VAT return. This category is aimed at connected persons, e.g. groups of companies, where inter-company charges are levied only once a year. However, there are certain conditions that have to be satisfied before a vendor can be approved for category E.

These are:

1. The vendor must be a company or a trust fund.
2. The activities of the vendor can only be the letting of fixed property, renting of movable goods or the administration or management in respect of companies that are connected persons in relation to that vendor. If any supplies are made to persons who are not connected persons, the vendor cannot qualify for category E.
3. The connected person who receives the supply must be registered for VAT and must be entitled to deductions of the full amount of input tax in respect of those supplies.
4. The vendor must agree with the recipients that tax invoices are issued only once a year, and consideration is payable once a year at the end of the 'year of assessment' as defined in the Income Tax Act of the vendor making the supplies.
5. The vendor must apply in writing to be placed in category E.

The following information is required for all applications:

1. A declaration of the vendor's activity.

2. Written confirmation that the only supplies made are to connected persons and that the recipient is entitled to claim the full deduction of tax.

3. A copy of the agreement between the vendor and the recipient that tax invoices will only be issued once a year and that the consideration for these supplies will only be payable at the end of the vendor's year of assessment.

All enquiries and applications for registration must be addressed to your local Receiver of Revenue. A revised registration certificate will be sent to you advising you of the effective date of the change to category E.

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